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# FINANCIAL TIMES

Weekend September 19/September 20 1992

EUROPE'S BUSINESS NEWSPAPER

D 3523A

## Chinese minibus company to seek New York listing

Brilliance China Automotive, which has a majority stake in minibus manufacturer Shenyang Automotive, plans to become the first Chinese company to sell shares in the US and to list on the New York Stock Exchange. It aims to raise \$70m to \$80m through an initial public share offer.

The move is designed to establish a precedent for equity fund-raising by state-owned Chinese businesses in top western capital markets. Page 26

**Foreign debt warnings:** Russia will need \$15bn-\$20bn in external financing next year to bridge the balance of payments gap even after a "reasonable" foreign debt rescheduling, foreign economic relations minister Peter Aven, said. Page 8

**Philips:** Dutch electronics group, suffered a fall of nearly 7.5 per cent in its share price after it cautioned that profits were likely to be halved this year. Page 14; Lex, Page 26

**Mansell signs for Indy race team**

Formula One motor racing world champion Nigel Mansell (left) will join film star Paul Newman's Newman-Haas racing team in the 1993 Indy Car World Series and the Indianapolis 500. Mansell, who on Sunday said he would retire from Formula One racing at the end of the season, will team up with American Mario Andretti. 52. Mansell's deal is believed to be worth about £2m.

**UK deficit grows:** Britain's current account deficit widened to almost \$6bn in the first half as exports of invisible goods failed to match expectations. Page 26

**Itoman, former Japanese textile trader** which became a property and art speculator, is to be dissolved under a takeover proposal announced by the Sumitomo group. Page 14

**BBC job losses:** The BBC is to cut 1,250 jobs among support staff such as market research and publicity personnel. The corporation expects the move will save it £150m over five years. Page 9

**County NatWest:** part of National Westminster Bank, said it would stop making markets in 200 to 300 small companies following a similar move by Warburg Securities. Page 26

**UK Tory finance chief:** Martin Saunders, P&O group finance director, has been appointed Conservative party director of finance. The move is intended to strengthen the party's financial position, said Tory chairman Sir Norman Fowler.

**Miyazawa backs bank:** Japanese prime minister Kiichi Miyazawa insisted public funds could be used to bolster the troubled banking system, contradicting the view of the Ministry of Finance. Page 8

**Kvaerner, Norwegian engineering, shipping and shipbuilding group,** has acquired the Warnow shipyard in eastern Germany for \$682,000, putting it into the top league of world shipbuilders. Page 14

**Caution on 'no-fly' zones:** The US and Britain are against any immediate attempt by western nations to enforce a "no-fly" zone in Bosnia as a way of stopping air attacks by Serb forces. Page 8

**Manx plan for depositors:** The Isle of Man government is to introduce a compensation scheme for depositors in the Savings and Investment Bank, which collapsed 10 years ago with £42m of depositors' funds. Page 9

**Unions to the fore:** Seven out of 10 British employers in companies with more than 200 employees still negotiate with trade unions, according to a survey of European industrial relations. Page 9

**Attack on warder's home:** Shots were fired through a bedroom window at the home of a prison warder at Dundonald, near Belfast. No one was hurt.

**Crash onlookers fined:** Bystanders who crowded the scene of a rescue operation after 20 people died in Germany's worst tourist bus crash have been fined for illegal parking. Police said 145 people were fined up to DM120 (\$80) (£45) for parking in meadows close to the accident near Donau-Eschingen earlier this month.

STOCK MARKET INDICES		STERLING	
FT-SE 100	2,587.0 (+63.1)	New York: London	1,748.5
Yield	4.7%		
FT-SE Europe 100	1,178.96 (+12.82)		
FT-Air Share	1,204.27 (+0.49)		
Nikkei	18,166.89 (+190.20)		
New York: London	2,587.0 (+63.1)		
Dow Jones Ind. Ave.	3,528.02 (+32.37)		
S&P Composite	421.51 (+1.38)		
US LUNCHTIME RATES		DOLLAR	
Federal Funds	7%	New York: London	1,748.5
3-mo. Term (90-180)	2.94%		
Long Bond	58.11		
Yield	7.30%		
LONDON MONEY		NORTH SEA OIL (A-gauge)	
3-mo. Interbank	10%		
Libor long (90-180)	58.11		
Libor long (90-180)	58.11		
NORTH SEA OIL (A-gauge)		NORTH SEA OIL (A-gauge)	
Sept 15-day (Nov)	\$28.425 (same)		
Oct 15-day (Nov)	\$28.425 (same)		
Nov 15-day (Nov)	\$28.425 (same)		
New York: London	2,587.0 (+63.1)		
Dow Jones Ind. Ave.	3,528.02 (+32.37)		
S&P Composite	421.51 (+1.38)		

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PM appears to back Lamont against Kohl as prospect grows of Tory party row

## Major calls for ERM reform

By Ivo Dawney in London and Robert Graham in Florence

MR JOHN MAJOR last night appeared to back Mr Norman Lamont, chancellor of the exchequer, after he became embroiled in sharp exchanges with Chancellor Helmut Kohl of Germany over responsibility for the turmoil in Europe's foreign exchange markets.

In his first interviews since the pound was withdrawn from the European exchange rate mechanism on Wednesday, the UK prime minister argued there were structural "fault-lines" within the ERM that needed to be tackled. Moreover, in words that appeared implicitly to support Mr Lamont, he insisted the UK would not return to the ERM until it was reformed and until Denmark had clarified how it intended to proceed after its No vote to ratification of the Maastricht treaty on European political and monetary union.

Pressed as to how soon that might be, Mr Major replied: "Clearly, it is not imminent."

He said the chaos in the markets had stemmed from "a good deal of Europe" being caught between low dollar exchange rates and very high interest rates in Germany.

"This is a problem far apart from the British government. It is a problem which has stretched right across the European Community - and outside it," he said.



Italy's Giuliano Amato and Germany's Helmut Kohl during yesterday's talks in Florence

said. Mr Major gave notice that the mechanics of the ERM would have to be reviewed, possibly at a heads of government summit to follow Sunday's French referendum on Maastricht.

Downing Street confirmed last night that such a meeting was

being considered. The prime minister's intervention came after an extraordinary clash between Mr Lamont and Mr Kohl that looked set to sour still further the already strained relations between Britain and Germany.

Earlier in the day, Mr Lamont

had openly fuelled the tensions by placing the blame for the week's events firmly at the Germans' door.

"We want to be satisfied that German policy that has produced many of the tensions in the ERM is going to have some changes

that will lead to a more stable environment," he said.

In Italy, Mr Kohl issued a swift public rebuke to Mr Lamont for making Bonn the scapegoat, describing his comments as "inappropriate for a minister".

Mr Hans Tietmeyer, deputy president of the Bundesbank, denounced UK criticism as unfounded. "I think there were certain comments, which were not exactly characterised by 'fair-play'," he said. "But when one is in a difficult position then such a reaction is sometimes also understandable".

Mr Kohl, speaking in Florence, where he had a meeting with Mr Giuliano Amato, the Italian prime minister, also voiced a more general irritation with the British government.

Mr Amato had shrugged off suggestions that Italy had bowed to the dictates of Germany by referring to puppet shows watched by three- and four-year-olds. "There is always the good guy being beaten with a stick by the bad one," he said.

Mr Kohl said in relation to Britain's attitude to Germany: "Similar considerations apply."

Both men reiterated their faith in the Maastricht treaty's vision of economic and political union despite the week's turbulence which forced Britain and Italy to float their currencies outside the ERM. Mr Kohl endorsed Italy's

Continued on Page 26

## Cabinet divided over speed of re-entry to system

By Ivo Dawney, Political Correspondent

EVIDENCE of differences within the cabinet over the speed of Britain's return to the European exchange rate mechanism emerged yesterday, raising the prospect of a lengthy internal struggle within the Conservative party.

Early in the day, the Tories' so-called Euro-sceptic wing was jubilant at remarks by Mr Norman Lamont, the chancellor, suggesting that there were now considerable obstacles to a rapid return to the exchange rate mechanism.

Speaking on BBC Radio's Today programme, Mr Lamont, one of the least enthusiastic Europeans in the cabinet, made clear that in the interim he would pursue a staunchly nationalistic policy.

"We are floating and we will set monetary policy in this country to meet our objectives and it will be a British economic policy and a British monetary policy," he said.

But later, Mr Michael Heseltine, the strongly pro-European trade and industry secretary, stressed that a long-term absence from the currency system could have serious consequences on foreign investment. "If it was perceived that we were going to be part of a slow stream Europe, do you think all those Japanese companies would continue to invest here on the scale that they are?" he asked an interviewer.

The contrast in tone came after both ministers agreed that the government's prime aim continued to centre on squeezing inflation. Mr Lamont added, however, that in the changed circumstances a secondary goal would be to help create a revival in the economy.

Moreover, he gave notice that he would need to consider three factors before a return to the ERM would be undertaken. These were developments in the cur

Continued on Page 26

## Europe's currencies face heavy selling pressure

By James Biltz and Peter Marsh

MOST OF the remaining currencies in the European exchange rate mechanism came under intense selling pressure yesterday as investors grew anxious that France would vote No in its referendum on the Maastricht treaty tomorrow.

For the second day running, the Bank of France intervened heavily on the foreign exchange markets, buying francs for D-Marks, as its currency came within one centime of its floor against the German currency in the ERM.

Investors also sold the Danish krone and the Irish punt in exchange for D-Marks. The switch out of the Irish punt pushed up the interest rate at which commercial banks can lend to one another overnight in the Irish money market to 300 per cent. Dealers said the currency was also protected by Irish exchange controls.

Sterling, which withdrew with the lira from the ERM this week, again came under selling pres-

sure after Mr Norman Lamont, the chancellor, cast further doubt over an immediate return to the system. However, dealers in the sterling money market priced in an imminent half percentage point cut in UK base rates.

The pound lost another 3.75 pence yesterday, closing against the German currency at DM2.6125. At this level, it is 12 per cent below its former central ERM rate of DM2.95.

However, sterling's suspension from the system continued to raise hopes in equity markets that there would be a cut next week in the UK's bank base rates, currently at 10 per cent. The FT-SE 100 index of leading shares closed up 63.1, at 2,587.0, after a 105-point rise on Thursday. The gains took the index up 196 points this week, to its highest level for three months.

Rates in the sterling cash market also priced in a cut in UK base rates. Three-month money, an important indicator of what the market thinks the next move in base rates will be, closed at 9 per cent on the offered side from

15 per cent the night before.

The French franc was supported by several factors apart from the Bank of France's intervention, including the temporary suspension by the French central bank of one of its key lending facilities to commercial banks.

Mr Hans Tietmeyer, the Bundesbank deputy president, helped the French currency by telling the Agence France Presse news agency: "The franc is in no way at risk. The franc is a very strong currency which has achieved inherent stability. On the contrary, it is a candidate for appreciation." The franc closed at FF3.4230 to the D-Mark, 0.75 centimes above its ERM floor against the German currency.

The strains in the ERM were also felt in Belgium where the central bank governor, Mr Alfons Verplaetse, said the Belgian franc would move to a slightly wider divergence against the D-Mark during the "turbulent times".

London shares, Page 15  
Currencies, Page 15  
World stocks, Page 23

## Fate of Europe may be decided by a few tiny French territories

By Philip Stephens in London and William Dawkins in Paris

A CHILLING thought is sweeping through the foreign ministries of Europe as the world waits for tomorrow's French referendum on the Maastricht treaty.

The future of European union may be decided not in the suburbs of Paris or familiar Mediterranean *départements* but in a group of exotic territories sprinkled around the Caribbean, South Pacific, the Indian Ocean and North Atlantic.

With opinion polls still pointing to a perilously close race, the British Foreign Office - responsible because of the European Community presidency for drawing up elaborate contingency plans for any outcome - fears that the voters in France's overseas territories and domains could hold the key.

The so-called *Domtoms* - *départements d'outre mer* and *territoires d'outre mer* - account for more than 10m voters, or 2.6 per cent of the 38m French electorate, in places such as Martinique, Réunion, French Guiana and New Caledonia.

If the French electorate is finely divided, votes from these far-flung locations could be crucial. The trouble is no one quite knows what their opinion is. The pollsters who busily questioned everyone and anyone in Lille or Marseilles apparently did not get around to them.

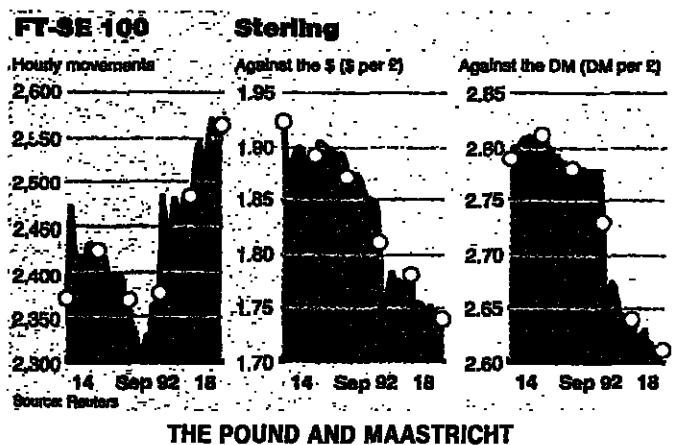
Worse, the leisurely pace of the count in far-away places like the Indian Ocean island of Mayotte (population 94,410 in 1991) and the islets of St Pierre and Miquelon (6,382) off the coast of Newfoundland could severely disrupt plans for orchestrated displays of relief or unity by EC govern-

ments. While the outcome in mainland France will be known by tomorrow evening, the *Domtoms* returns will not be collated until Monday afternoon.

French government officials reckon that, if anything, the *Domtoms* vote will slightly strengthen the Yes vote - though for the most perverse possible reasons.

The turnout will be very low because there is almost no interest in the EC. In one or two places, independence parties have urged voters to send in blank ballot slips to protest against French rule. But there have apparently been few appeals for a No vote.

One French official has concluded that the proportion of *Domtoms* residents voting Yes could be up to 10 percentage points above that in mainland France.



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## NEWS: THE ERM AND MAASTRICHT

## How Chancellor Lamont



Lamont: presented Bath meeting as a victory for Britain

IF there was a moment when Norman Lamont knew that his economic policy was in ruins, it came just seconds after 11am last Wednesday.

As sunshine streamed into Parliament Square, the Chancellor of the Exchequer rose from his desk in the Treasury, buttoned his dark blue, single-breasted suit, and stepped out into the barely less opulent splendour of his panelled outer office.

Half an hour earlier he had received agreement by telephone from the prime minister - 500 yards down Whitehall - to raise interest rates by 2 percentage points.

The announcement was to be released to the news agencies on the stroke of 11am. A small group of advisers, the chancellor at their centre, gathered round the Reuters news agency screen on the island of desks that guards his inner sanctum.

All morning the Bank of England had been fighting a desperate battle to save the pound from collapsing against the D-Mark and dropping through its agreed floor in the European exchange rate mechanism. Billions of pounds were used to try to stem the tide. Sterling rallied briefly, then dropped back.

At Big Ben struck 11, Norman Lamont and his team were transfixed by the numbers on the screen which monitored the currency markets. The chimes stopped and still

the pound was sinking. A minute passed. The chancellor broke the silence. "It is not moving," he said. The battle was already lost.

The extraordinary events of this week which have engulfed the pound, shattered the British government's economic policy and shaken the ERM to its core began in earnest two weekends ago in the elegant city of Bath.

European finance officials, under Mr Lamont's chairmanship met to prepare, among other things, for the possibility of a No vote when the French deliver their verdict on the Maastricht Treaty on European union tomorrow. Already the cracks were beginning to appear.

The Germans believed that the weaker currencies in the ERM, such as the pound and the lira, were out of line with the rest. Germany's partners responded that it was Bonn which was out of line because the Bundesbank was keeping interest rates too high and stifling growth.

Despite subsequent denials that this had ever been mooted, the German delegation, led by Theo Waigel, and Bundesbank president Helmut Schlesinger, offered to reduce their interest rates. The price: a wide-ranging realignment of the mechanism. "In the event, the others weren't ready for it," said one German official later.

Lamont has since said that the Germans had at no time suggested the pound's devaluation within the ERM. In his statement after the meeting he presented the outcome as a victory for Britain. He had secured from the mighty Bundesbank a promise not to raise interest rates. The following morning Britain's Tory tabloids took up the theme.

The Bundesbank's president later confided that he was so angry at the conduct of the

## The Bundesbank president was so angry he nearly walked out

meeting that, at one point, he nearly walked out. He could hardly be expected to agree with Lamont's interpretation of the German's position. The Bundesbank bowed to no man, least of all a politician.

When Schlesinger set the record straight the next day, the private disagreements became public. The markets smelled blood.

Last week pressure built up on the Italian lira. Over the weekend increasingly worried finance officials across Europe agreed a 7 per cent devaluation of the lira's central rate. The Italians then supported the Germans in the desire for a broader realignment. But the British continued to resist.

The lira had traded quite strongly on Monday and the Bank of England had plenty of ammunition to fight the speculators, or so it thought. Its \$44.4bn (£25bn) in reserves at the end of August had been supplemented by a more recent £7.7bn borrowing in foreign currencies.

The initial catalyst for the fall of sterling was the dramatic fall of the lira shortly before lunchtime on Tuesday. Traders were beginning to believe that one devaluation was not enough.

By Tuesday night the pound closed in London just a fifth of a pfennig above its ERM floor of DM2.778, its lowest ever in the mechanism. There was a growing feeling in Whitehall that the currency could be tipped over the edge.

The Treasury called a high-level crisis meeting in Lamont's office with senior Bank of England officials in the Chancellor's office.

Beneath the glittering chandeliers, the details of the following day's tactics were plotted around a large oaken table.

Besides the chancellor, the key actors who were to shape tactics on Black Wednesday were there: Sir Terry Burns, the Treasury's grumpy permanent secretary ("keep smiling" is one of his aphorisms); his right-hand man, economist Alan Budd; Andrew Turnbull, in charge of monetary policy; Bill Robinson, the chancellor's special political adviser; and

Sir Nigel Wicks, the Treasury's laconic second permanent secretary in charge of international affairs.

The Bank group included: Robin Leigh-Pemberton, the aristocratic governor; Eddie George, deputy governor and the man in overall charge of market operations; Ian Penderleith, associate director in charge of markets; Tony Colby, director of monetary affairs; and Andrew Crockett, international director.

George, known in the City as Hard Eddie, outlined the strategy: take each part of the battle as it comes; escalate the defence in discrete stages. First there would be large and overt Bank intervention. A rise in interest rates would be held in reserve for later in the day.

But events were already conspiring to thwart their plans. Five hours earlier in Frankfurt, the seat of the Bundesbank, two journalists, one from Germany's principal business news paper, Handelsblatt, and one from the Wall Street Journal, were about to start an interview with Schlesinger.

They released a summary to the news agencies. Schlesinger was reported as saying that a more wide-ranging realignment of the ERM than the devaluation of the lira agreed at the weekend could have reduced turbulence in the currency markets. In code this meant that the Germans believed a sterling devaluation was necessary.

## Italian unions to protest at cuts plan

By Haig Simonian in Milan

ITALIANS have reacted with a mixture of shock and resignation to the swingeing public spending cuts in next year's budget, unveiled by Prof Giuliano Amato, the prime minister, on Thursday.

The L83,000bn (£42bn) package of revenue increases and savings is the biggest attack on health and social security spending since Italy's welfare state was set up after the war.

In a first reaction to the cuts, which also involve a wage freeze for about 3.5m public-sector workers, the country's three union federations yesterday announced a series of demonstrations, culminating in a one-day stoppage for public sector workers on October 2.

However, the unions stopped short of calling a general strike, as demanded by some more militant members who took to the streets of big cities yesterday in protest. The wage freeze should save L9,900bn next year.

Around 20m Italians will lose their entitlement to free outpatient health care under the decision to make all families with incomes over L40m a year pay for prescriptions and general practitioners' services in a move expected to save L6,000bn.

A further L13,750bn will come from by cutting the costs of the state pension system, threatened with bankruptcy.

The measures triggered a recovery in the financial markets. With government bond prices making up ground after Thursday's panic selling and share prices rising by around 2 per cent. The value of the lira remained broadly stable in relatively quiet trading in Milan.

Stockbrokers welcomed the measures, in spite of the introduction of a new tax on companies' net worth.

Rates for securities repurchase agreements between the Bank of Italy and commercial banks declined slightly to 21.01 per cent yesterday, after hitting an all-time record of 22.22 per cent on Thursday.

Mr Luigi Abete, chairman of the Confindustria employers' federation, expressed satisfaction with the government's measures, but warned that the proposals would have to be translated into fact if recent sacrifices were to have any effect.

Representatives of small businesses and shopkeepers' federations, the two groups most often accused of tax evasion, said the moves were "inevitable", and rejected claims their members were persistent tax-dodgers. Denying reports of unjustified price rises for foodstuffs following the lira's devaluation, the shopkeepers expressed concern about the possible effects on employment of the latest measures, which could cut consumption.

● In a step overshadowed by the budget, the Senate, the upper house of parliament, approved the Maastricht treaty on European union.

Pressure for interest rates cut may become irresistible

## Bonn fears collapse into vicious circle of recession

By Quentin Peel in Bonn

ONE OF THE great ironies of the soaring strength of the Deutsche Mark on European currency markets is that it comes amid grim prospects for the German economy.

Far from providing the motor for any European economic recovery, the soaring costs of German unification threaten to become the brake on hopes of revival in the rest of the European Community.

Mr Jürgen Möllemann, the German economics minister, warned in his budget speech a week ago that drastic action must be taken to prevent the economy getting locked into a vicious circle. He saw a failure of the east German economy to pick up from its dramatic slump, coinciding with a western economy held back from revival by the huge costs of state transfers to the east.

It is those transfers, running at around DM150bn (£57bn) a

year, which are weighing down on the capital markets, and persuading the Bundesbank to keep real interest rates high to hold back credit expansion and inflation.

Yet the transfers, overwhelmingly for infrastructure spending, unemployment benefit and wage subsidies, are not yet having any appreciable effect on recovery in the east, where industrial investment is running at only 60 per cent of the western per capita level, suggesting that the east is if anything likely to fall further behind the west.

The business magazine Wirtschaftswoche yesterday poured scorn on hopes of an economic turnaround in the wake of the Bundesbank's marginal cut in interest rates last Monday.

It cited figures of an accelerating decline in business confidence throughout the past year in western Germany, while in the east, the mood remained overwhelmingly negative.

The gloom was reflected in the latest monthly report of the Bundesbank, published this week, which warned that the duration and size of western subsidies for the east would be far greater than first calculated.

Fears over the cost of unification, and the growing unwillingness of western citizens to pay more (more than two thirds now say they are unwilling to freeze or cut their own incomes to help eastern recovery), have inspired Chancellor Helmut Kohl's plans to negotiate a "solidarity pact" among the central government, opposition, local and state governments, employers and trade unions.

While hopes for the pact are high, the starting points of the participants are far apart. Mr Kohl and the employers are clearly looking for severe wage restraint in both east and west, to encourage investment. The trade unions are adamant

that no such restraint will be forthcoming without substantial increases in the contributions of industry and the better-paid to investment in the east.

Mr Möllemann is looking for big reforms in labour practices to cut industrial costs. His proposals arouse fury from both the unions and the opposition Social Democrats.

The prospects of a deal on the solidarity pact, supposed to be agreed by the end of the year, are therefore remote. Unemployment in the east is stoking racial unrest there, with no end to the rash of attacks on hostels occupied by foreign workers and asylum seekers.

The domestic political pressures on the Bundesbank to relax its harsh interest rate policies may become irresistible by the end of the year, for fear of tipping the economy into full recession.

## Poll shows backing for referendum

By Quentin Peel

MOST Germans, in both east and west, favour holding a referendum on the Maastricht treaty on European union, according to a comprehensive opinion poll. Some 75 per cent in the west, and 85 per cent in the east, want a vote.

At the same time, a narrow majority is still in favour of the treaty, although many more believe that the replacement of the D-Mark with a single European currency would be wrong.

There is a growing feeling that the European Community brings Germany more costs than benefits, and scepticism about the advantages of the single EC market.

The poll found more dissatisfaction with the German government, and with the opposition, than at any time in the past 15 years. The only reassurance for the political establishment was that support for the extreme-right-wing Republicans has decreased slightly since the last poll.

Support for the EC has deteriorated rapidly among German people since the Maastricht Treaty was agreed. This is not reflected in political circles.

In east Germany - with 20 per cent of the population - 55 per cent would vote No in a referendum, against 43 per cent saying Yes. However they are outweighed by western voters, 47 per cent of whom would vote Yes, against 37 per cent voting No, and 16 per cent undecided. The combined result would leave a 46-to-41 per cent majority in favour.

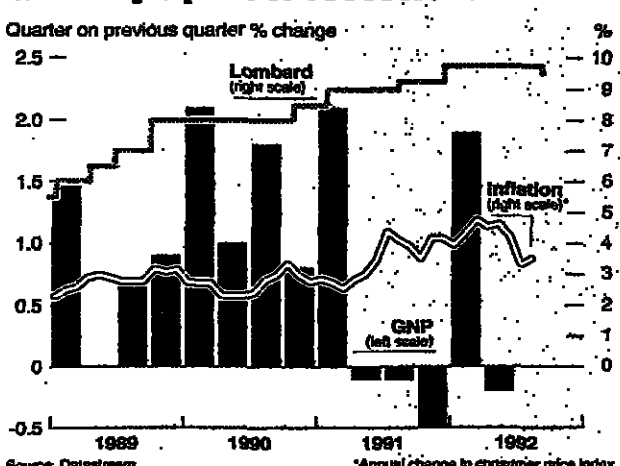
The overwhelming cause of dissatisfaction is concern about the future of the D-Mark: 68 per cent in the east, and 75 per cent in the west, oppose its replacement by a single currency. Eighty per cent believe a single currency would be less stable.

All the views spell grief for Chancellor Helmut Kohl, who has adopted European integration as his theme for uniting the country. He comes bottom in the poll of politicians' popularity.

## Europe's prospects hang on Germany

Edward Balls assesses the outlook for the continent's economies in the wake of the ERM crisis

## Germany's path to recession?



any reflexing of sterling against the D-Mark.

Elsewhere the immediate outlook looks much less certain. Any positive impulse towards lower European interest rates as a result of last Monday's disappointingly

small cut in the German discount and Lombard rates has probably been offset by the rise in interest rate differentials resulting from the growing uncertainty within the ERM.

A general breakdown of the ERM would be one possible route to lower interest rates outside Germany. Far more likely, a No or narrow Yes vote in Sunday's French referendum could provoke a similar speculative attack on the franc and a general ERM realignment.

Appreciation of the D-Mark against still more currencies, and the resulting disinflation within Germany, would probably be enough to persuade the Bundesbank to cut German rates once more.

For France, this could mean a welcome fall in interest rates. But the chances of a noticeable acceleration in French economic growth before 1994 still look poor, even if interest rates were to start to fall.

In Italy, the opportunity to cut its interest rates below those in Germany may remain elusive, despite its temporary

departure from the ERM. The government's finances remain in a parlous state. And without the stick of the ERM commitment, and maybe also the carrot of membership of a European monetary union, the Italian parliament may be reluctant to agree to a budget package which bites deeply into its powers of patronage.

The government's proposed deficit reduction package of L83,000bn (£42bn) in new taxes and spending cuts in 1993 is bound to reduce Italian economic growth in the short term if it receives parliamentary approval. But the package may still prove too small to convince markets that the government can finally set the public debt on a downward path. Unless the government can also obtain executive powers to allow further budget consolidation, the Bank of Italy will have to keep interest rates painfully high.

For Italy, the collapse of the Maastricht Treaty could spell disaster. But elsewhere in Europe, freedom from the trea-

ty's tough fiscal policy convergence criteria would also be good for economic growth.

Germany's economic problems will continue to place a question mark over the medium-term prospects for European economic growth.

"Europe's growth prospects will improve and interest rates fall as a result of an ERM breakdown," says Mr David Walton, economist at Goldman Sachs investment bank. "But the medium-term outlook will remain closely tied to events in Germany. If the German economy stays very weak, then the chances of a robust European recovery are poor, whether or not the ERM survives."

Whether slow growth will turn to recession depends, in large part, on how long the Bundesbank will keep German interest rates high. Unless the government can come up with a credible plan to cap its growing fiscal deficit, interest rates may stay high for some time yet. ERM or no ERM, a recessionary Germany spells danger for European economic growth.

## Pre-poll package for small farmers

By David Gardner in Brussels

THE European Commission was last night due to announce a relief package for hard-pressed small French farmers, who all opinion polls say will vote massively against the Maastricht treaty in tomorrow's referendum.

The measures follow Commission pledges to review anomalies left unresolved when the Common Agricultural Policy was radically reformed in May. But the timing reflects a plea for help from Mr Louis Mermaz, French agriculture minister, who wrote to Mr Jacques Delors, Commission president, 10 days ago seeking eight changes to the CAP reform package.

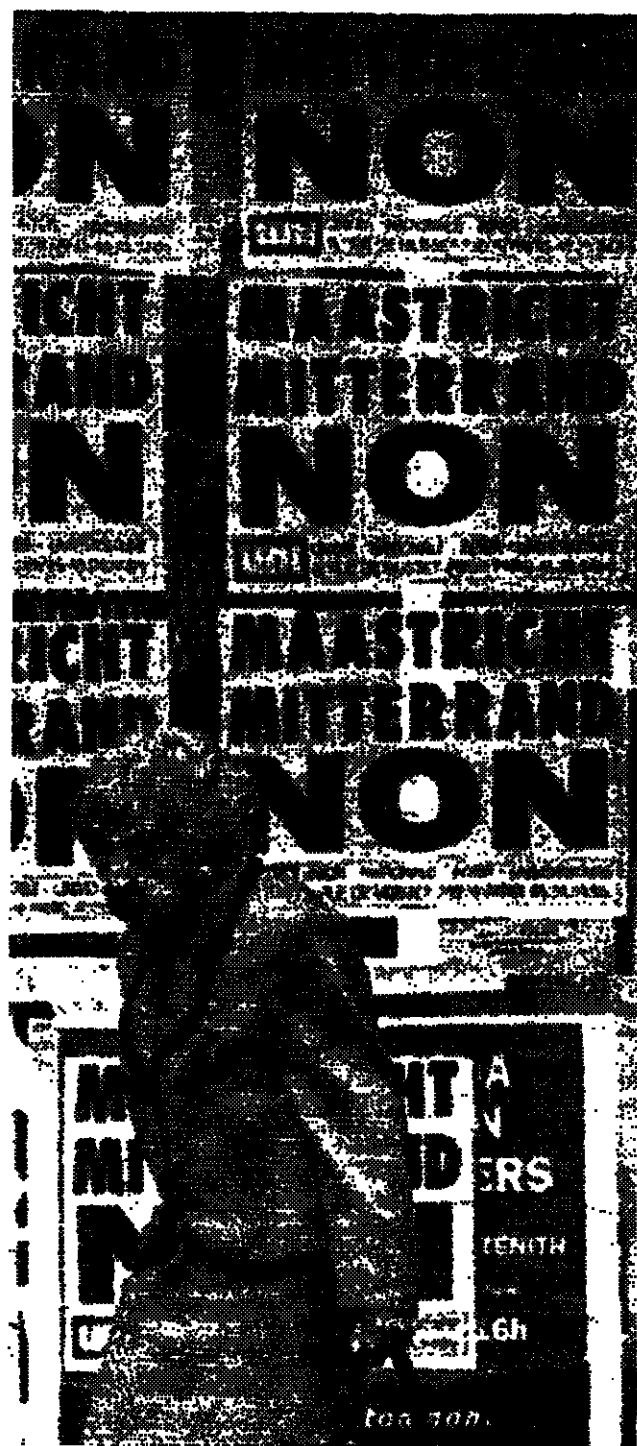
Mr Delors was due to make the announcement in France last night, according to senior Commission officials.

Small dairy farmers who keep "suckler" cows for beef production, most of them in central France, should get additional premium payments worth about £100m, the officials said. The proposal, though approved by Brussels, still has to be endorsed by EC farm ministers, who meet in Brussels on Monday.

In southern France, producers of durum wheat (used largely for pasta) are expected to have restored to them the 25 per cent premium over ordinary wheat, abolished under the CAP reform except in a restricted list of "sensitive areas". The cost of this is unclear, as the Commission has not finalised the proposal.

Although only a fraction of the more than 1m small farmers in central and southern France will benefit, officials say a sweetener may temper their hostility towards the EC.

Although Maastricht has nothing to do with the CAP reform, French government opinion polls from as far back as mid-June revealed a bedrock of 70 per cent opposition to the treaty among farmers.



An old woman passes a wall of posters calling for a No vote in the French referendum

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## NEWS: THE ERM AND MAASTRICHT

## lost the battle for sterling

When the FT called the Bank of England and the Treasury to seek reaction, near panic ensued in Whitehall and Threadneedle Street.

As British officials fought desperately to lessen the impact of the story, Leigh-Pemberton twice called Schlesinger at his home in Oberursel near Frankfurt to try to clarify the report.

The academic Mr Schlesinger - who years ago told a close Bundesbank colleague "the markets do not interest me" - appeared bemused by the news that his quoted comments were already creating havoc on the foreign exchange markets.

"The interview has not been authorised," he twice told the Bank of England governor. He appeared "puzzled" at all the confusion.

Though denials were soon forthcoming, the scene for the bloodletting on the foreign exchanges was set. What Schlesinger was quoted as saying was too close to the known views of many top officials in the central bank - including his own.

Throughout the night, the Federal Reserve Bank of New York and the Bank of Japan supported sterling.

By 7.30am on Wednesday, a small team assembled in Eddie George's room in Threadneedle Street. A team of eight foreign exchange dealers sat hunched over their computer consoles to execute orders with the outside world. Plenderleith

ordered them to spend about £2bn in three separate interventions. By 8am the pound was firmly pinned to its floor.

By 8.30, the Treasury crisis group re-assembled in the chancellor's room. Plenderleith called the Treasury over a special secure hot line to convey the sombre mood. Lamont, having spoken to the prime minister earlier in the day, ordered more intervention from the Bank's foreign currency reserves. Leigh-Pemberton and George joined the meeting, smuggled in through a side entrance to avoid the waiting photographers.

As the heavy artillery in the City began starting the day long pounding, Major took his armoured-plated Jaguar the two minute drive down Whitehall to the Admiralty.

His destination was a long scheduled 8am meeting with Michael Heseltine, Douglas Hurd, Kenneth Clarke, Richard Ryder, the chief whip, and Sir Norman Fowler, the Conservative party chairman. The subject was supposed to be Maastricht - but the meeting became a *de facto* war cabinet.

By 10.30am, the call everyone was dreading from the chancellor came through. Major left the meeting to take it. Hearing that the pound was sinking he calmly approved the two percentage point interest rate hike to 12 per cent, returning to the meeting to inform his colleagues.

The prime minister made

certain that this core group of ministers would convene for the key decisions - an insurance policy that the law of "collective responsibility" would be invoked in full.

At 11am, the move was announced. The chancellor's group was asghast as the pound barely moved. One member of the group thought to himself "It's all over." The currency market was coming to the same conclusion.

By noon, Lamont ordered

One member of the Treasury group thought to himself: "It's all over"

more intervention. It was like trying to stop a whirlwind. There followed a short discussion about whether suspension from the ERM would be in the Treasury's best interests. At 1pm, sandwiches were called in. Many were left untouched. One private secretary, more hungry than the rest, ordered a baked potato.

At 2.15, the Bank made its final move, raising interest rates to 15 per cent, the first time in history it had raised rates twice in a day. The stock market's reaction was telling: it rallied, traders there believing the interest rate policy was unsustainable in view of the weakness of the economy and sterling would have to be

devalued.

Total central bank intervention on Wednesday alone may have exceeded £15bn.

Almost before the second rise had been received and contemptuously batted off by the markets, Major was making his plans for sterling's tactical withdrawal from the ERM.

The currency market was coming to the same conclusion. Major ordered calls to be put through to Pierre Bérégovoy, the French prime minister, and to Chancellor Kohl.

Just before 4pm, the Bank of England initiated a conference call to its fellow central banks and informed them of the decision to suspend sterling's membership of the mechanism.

Not knowing where the downward spiral would stop and with reserves severely depleted, the view was that a devaluation would probably not be tenable.

Faced with the full scale of the defeat, Major once again summoned his cabinet colleagues at 6pm, this time with Lamont and Leigh-Pemberton in close attendance.

As the ministerial cars rolled up, a curious Londoner asked of the press scrum outside the Admiralty as to what was going on. "Half the cabinet's in there deciding what to do about the sterling crisis," came the reply.

"Oh," said the unshaken enquirer, "we thought it was something important." Inside, the prime minister

and chancellor were spelling out their drastic solution. One Whitehall insider has since reported that while the Treasury and Bank officials appeared close to panic, Major remained calm. The move to pull out of the ERM was formally agreed.

By 6.36pm, the time Heseltine, the last minister to leave, had climbed back into his green Daimler, the markets had been long officially closed with the pound still beneath its bands.

Just over an hour later with the twilight fading in the Treasury's elegant neo-classical courtyard, Lamont adjusted his tie, pulled straight a slightly rumpled suit jacket and began to speak to the forest of woolly microphones and cameras.

"Today," he began, "has been an extremely difficult and turbulent day..."

On Thursday morning, despite working until 3am, civil servants reported that Lamont returned to his office with a smile on his face and a spring in his step.

"I have had an excellent night's sleep and I feel fine," he is reported to have told his colleagues. "It has been the first time for some time that I have had a night where I haven't had to worry about the pound."

Reports by Stephen Fidler, Ivo Dawkins, Peter Marsh, Quentin Peel, James Blitz, Emma Tucker, David Marsh and Tracy Corrigan



Schlesinger: puzzled at confusion over his remarks

Yes and No votes in tomorrow's referendum are only a guillotine blade's breadth apart

## Maastricht lifts the lid on French fears show Yes vote

By David Buchanan in Paris

THIS evening, 3½ months of campaigning grinds to a halt as 38m Frenchmen and women ponder whether and how to vote in tomorrow's referendum on the Maastricht treaty, and Europe's politicians and the world's money dealers hold their breath for the first results shortly after 8pm French time. The stakes remain virtually as high as on June 3, when President François Mitterrand called the referendum in France, in reaction to the treaty's defeat in Denmark the day before.

French rejection will seal the doom of the treaty, though some claim that this week's explosion in the European Monetary System may have mortally wounded Maastricht's single currency project anyway.

Likewise, a No verdict will create political upheaval in France, though the president's newly-discovered prostate cancer has heightened the feeling that the Mitterrand era is already drawing to a close.

The eve-of-poll strengths of the Yes and No camps seem to be a guillotine blade's breadth apart. The French have responded to the first great

debate their country has had in 40 years on European integration with all their famous political volatility.

The No voters clawed their way up from 30 per cent in the June opinion surveys to a narrow majority in late August, only to fall back slightly by the time public polling ended a week ago. Since then, the rumour mills have been whirling with whispered results of secret surveys.

So, the sure bet Mr Mitterrand seemed to be making in June on the pro-EC sentiments of his fellow citizens has come to be the riskiest of gambles. His not-so-hidden motive was, of course, to deflect from his own unpopularity by discomfiting the main opposition parties on an issue that splits them.

But his public rationale - the need for popular endorsement of France's participation in further EC integration - has acquired a life and legitimacy of its own. Judged by its impact for present and future generations in France, Maastricht warrants a referendum far more than, say, the last issue to be put to such a vote in 1988, a new constitution for remote New Caledonia.

Yet the range and complexity of the treaty's provisions

make a verdict very hard to reduce to Yes or No, as the large number of undecided - as many as 30 per cent in the last public polls - attests. Indeed, Maastricht has lifted the lid on a Pandora's Box of French gripes and fears about the Community, and about France's place in it.

Back in June when the French parliament was going

through the first stage of the ratification process by amending the constitution, the only contention was whether foreigners (citizens from other EC states) should be allowed to vote in France's local and European elections. The issue was of little moment, except to Mr Jean-Marie Le Pen's far-right National Front.

But the open debate of the

elgity: whether Maastricht would compromise or protect it and how the EC should be made more democratic.

The French desire to maintain influence in Europe has shown itself in the campaign to be largely defensive. That is to say, pro-Maastricht arguments that Europe should project itself as a superpower through common foreign and military

policies have struck far less resonance than assurances that Maastricht would help protect France from unwanted immigrants and imports.

The prospect of technocrats in an independent central bank, alien to French tradition, running a Euro-currency has been extensively and ably exploited by the No campaigners. But this week's monetary turmoil will have reminded many French voters of the instability of the current system, and may make them heed the warnings of the Yes camp that worse would follow rejection of Maastricht.

Even if domestic political considerations do not chiefly determine how many French vote tomorrow, they will be uppermost in French minds, once the result is in. Mr Mitterrand rightly calculated that a Euro-referendum would fracture the opposition more than his own Socialists. The RPR and UDF have committed themselves to presenting a single candidate at the

next presidential elections, which they failed to do in 1981 and 1988. But Mr Jacques Chirac and Mr Cocard d'Estaing remain rivals for that candidacy, having failed to share a platform during the campaign.

And Mr Mitterrand's health problems almost certainly do not give them much time to make common cause.

But no assumptions are safe about how the wily president will react to tomorrow's verdict. Obviously, he will take a Yes verdict as a personal endorsement, but one which perhaps allows him to resign fairly soon, with honour amid relative political calm.

A No decision will undoubtedly shift the French political landscape. Foremost, it will be a slap in Mr Mitterrand's face. But it might also see the "three musketeers" and Mr Chevènement bursting the bounds of their respective parties and splitting in opposite directions towards the solidly anti-Maastricht National Front and the Communists. Mr Mitterrand might well then feel, as captain of a storm-tossed France, he must stay on at the helm. In doing so, he would be able to see whether there are political realignments to his own party's benefit.

By William Dawkins in Paris

PRIVATE opinion polls over the past week show a small margin for a Yes vote in the French referendum on the Maastricht Treaty.

Five surveys over the past few days show between 52 per cent and 56 per cent support for the treaty, a right-wing political party disclosed yesterday. The sources are confidential because publication of opinion surveys in the week before a national vote is forbidden.

This last-minute indication of support for European union came as anti-treaty campaigners accused Mr Pierre Bérégovoy, the prime minister, of holding the franc "hostage". The three leaders of the anti-Maastricht campaign, Mr Philippe Séguin, Mr Charles Pasqua and Mr Philippe de Villiers, said Mr Bérégovoy had acted against national interests by warning that a victory for the No camp would harm the franc.

Mr Bérégovoy replied that the anti-Maastricht campaigners had "called into question our currency by irresponsible comments".

The past week has proved a bonanza for the polling organisations, but has also led to widespread criticism of the ban on publication of polls. Mr Michel Brulé, a director of BVA, which has conducted polls every day for private clients since last weekend, argues that the ban restricts information to the privileged few, able to pay up to FF50,000 (£5,500) for a survey.

Mr Jean Saint-Geours, president of the Commission des Opérations de Bourse (COB), the stock market watchdog, is also critical of the ban, but has nevertheless pledged to ensure that it is strictly observed. The COB has launched an inquiry into all trading from September 12, when the publication ban came into effect, until its expiry at midnight tomorrow.

As a result, securities houses are being ultra-cautious about how they handle confidential polls. One US firm has allowed only its top two European directors to see the results of its privately commissioned polls. They are allowed to take account of the findings but have been ordered not to communicate the results.

However, there are reports of at least one poll, for an unidentified opposition party, indicating a No majority.

## Silver lining for dollar in clouds over the ERM

By Michael Prowse in Washington

THE MELTDOWN of the Exchange Rate Mechanism (ERM) has shaken confidence throughout Europe, but left many US investors feeling more, rather than less, secure. The consensus view of Wall Street analysts is that the dollar has turned. The strong gains registered in the past week are widely seen as just the beginning of a sustained, if sometimes bumpy, recovery for the US currency.

The Bundesbank's agreement last weekend to a quarter-point cut to 9.5 per cent in the Lombard rate is seen as the turning point. "The principle was established that the Germans would respond to pressure," says Mr David Jones, chief economist at Aubrey Landon, the New York broker. At the meeting of the Group of Seven leading industrialised countries in Washington today, Mr Nicholas Brady, the US treasury secretary, is expected to press hard for further cuts in German rates.

Speaking in Washington yesterday, Mr Brady said lower interest rates in Europe were "inevitable if that continent is to return to growth". On Wall Street, the turmoil in the ERM is seen as bringing forward the timing of cuts in European rates. "The breaking apart of EMS [European Monetary System] disciplines will force larger interest rate cuts

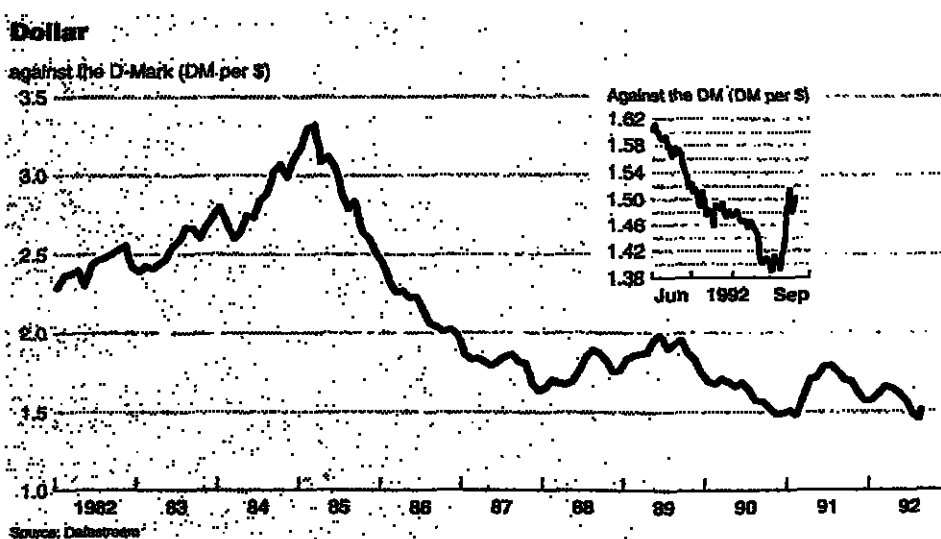
in Europe sooner than would otherwise have occurred," says Mr Robert Giordano, chief US economist for Goldman Sachs, the investment bank.

"The dollar's appreciation reflects the fact that people are now more optimistic about German interest rate cuts," agrees Mr Philip Suttle, an economist who follows European developments for J.P. Morgan, the New York bank.

In the short run, exchange rate chaos in Europe has also served to enhance the dollar's status as a "safe haven" currency. Ahead of tomorrow's French referendum on the Maastricht treaty, the future of European economic and monetary integration hangs in the balance. By contrast, a huge, politically stable, unified American market for exports and investment can be taken for granted.

The safe haven argument for the dollar should not be exaggerated, however, because the US is facing one of the most open presidential elections in recent history. Financial analysts, moreover, are shifting the view that Mr Bill Clinton, the Democratic contender, will win. Normally, the prospect of a political shift from right to left would send tremors through financial markets and undermine the dollar.

Such fears, however, are balanced by a recognition that it would be hard for Mr Clinton to perform less well economically than the incumbent. Mr



Bush has not only presided over the slowest growth since Herbert Hoover, he has also lost control of federal spending and run up even larger budget deficits than did his predecessor, Ronald Reagan.

The dollar is unlikely to appreciate without setbacks, however. US economic figures this week were weaker than expected, raising fresh doubts about the momentum of the domestic recovery.

Retail sales and industrial production both fell by 0.5 per cent last month. There were mitigating circumstances: production was affected by Hurricane Andrew and the fall in retail sales was partly balanced by upward revisions for July. Nonetheless, these were hardly figures to inspire confidence.

And some analysts think there is worse to come. Mr Geoffrey Dennis, a US-based economist for James Capel, the UK stockbroker, predicts very weak employment figures for September. The combination of soft economic numbers and the dollar's rebound is widely seen

as increasing the pressure for US interest rate cuts.

Early this month, the Federal Reserve shaved short-term interest rates by a quarter-point to 3 per cent, but was prevented from easing more aggressively by dollar weakness. Mr Jones at Aubrey Landon thinks there is a 50:50 chance that poor employment figures would persuade the Fed to complete that easing move by signalling a half-point cut in the discount rate to 2.5 per cent early in October.

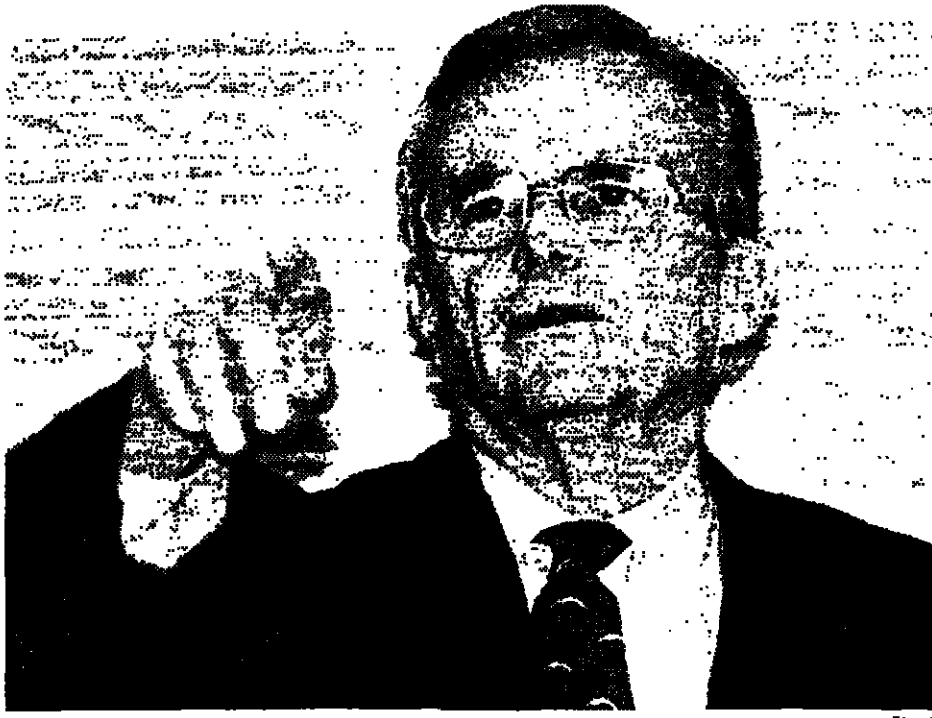
The case against another cut, however, is that the Fed would not want to look politically partisan so close to an election. Without a prior easing of interest rates in Europe, a unilateral Fed move would also threaten another bout of instability on currency markets.

Looking beyond current uncertainties, most US forecasters expect the US recovery to gather momentum next year. US interest rates are thus expected to begin firming within six months or so. At the same time, many US analysts

believe European - and especially German - economic troubles are deeper than previously suspected. Perhaps naively, many expect German intransigence on interest rates to recede as recessionary forces become more evident.

How much might the dollar rise in such circumstances? Mr Giordano at Goldman Sachs says that he would not be surprised if the dollar rose to DM1.60 within a few months. Purchasing power parity comparisons of relative price levels suggests the potential gains could eventually be much greater.

In any case, movements against the D-Mark may understate the dollar's underlying strength. If the *de facto* outcome of this week's turmoil is a revaluation of the D-Mark in Europe, the dollar will appreciate faster against weak European currencies, such as sterling and the lira, than against the D-Mark. Whatever happens, another roller-coaster ride seems in store for the world's currency markets.



Nicholas Brady, US treasury secretary: little to offer in return for the German rate cuts he seeks

## US, German clash likely

By George Graham in Washington

THE US and Germany are expected to clash over interest rates at today's meeting of the Group of Seven (G7) leading industrial nations in Washington's Dumbarton House.

The US has been urging Germany to take more active measures to stimulate the world economy, and Mr Nicholas Brady, the US treasury secretary, will argue that Germany must make further cuts in interest rates to help growth in the European Community.

While US treasury officials welcomed the Bundesbank's

reduction in official interest rates on Monday as "a significant change in direction", they made it clear that they believe more cuts are needed soon.

"I think you can say in due course in Germany you will look forward to lower interest rates," said Mr David Mulford, US treasury undersecretary for international affairs. "That's clearly the signal they sent. The timing of that is a complex matter dependent on developments in Germany, developments in markets and so on."

Now Japan has met insistent demands by the US for faster growth with an ambitious government spending package,

Germany will be the chief target for the US at today's G7.

Senior US treasury officials say the German economy is now showing clear signs of slowing down, and the Bundesbank may not be giving itself enough credit for success in controlling the inflationary pressures of unification.

But in the absence of any credible US commitment to reducing its vast budget deficit - which many countries feel poses a more significant problem for the world economy than German interest rates - Mr Brady will have little to offer in return for the rate cuts he seeks.



## NEWS: STERLING AND THE UK ECONOMY

■ Chancellor expected to reiterate concern over German policies ■ Government urged to boost confidence of home buyers

## Heseltine moves to offset revolt by party

By David Owen  
and Chris Tighe

THE GOVERNMENT yesterday moved to reassert its European credentials in the face of increasingly open dissent within the Conservative Party.

Mr Michael Heseltine, trade and industry secretary, said that the week's turbulence should not be perceived as the end of Britain's move towards Europe.

His remarks came as Mr Kenneth Baker, the former party chairman, moved to place himself in the forefront of the Tory Euro-sceptics.

In an article in The Daily Telegraph, followed by an interview on BBC Radio 4, Mr Baker made clear his opposition to the pound's early return to the exchange rate mechanism, making more likely a strong Tory backbench revolt in next week's emergency Commons debate on the economy.

During a visit to the north-east of England, Mr Heseltine said companies must not be deflected from urgently needed preparations for the single European market. "We have to persuade the people who work in our companies to

take the readjustment to the single European market seriously and urgently," he said. Any misreading of Britain's approach to Europe could also affect inward investment, which the UK had been successful in attracting in the 1980s - such as the £300m Nissan car plant he visited yesterday.

"They didn't come here because it was Britain, they came here because it was Britain in Europe. If there were to be any doubt about that, then many of these companies who have positioned themselves in Europe by basing

themselves in Britain would have to reconsider that strategic judgment."

Mr Baker said that conditions for sterling to re-enter the ERM would take "a very long time to get right". The UK "should not be too keen to re-enter the ERM, even if it survives. The Maastricht concept of a single currency for the whole of the Community will not come about this century."

Articulating the wishes of many grassroots Conservatives, Mr Baker also urged Mr Norman Lamont, the chancellor, to make further rapid cuts in interest rates. "I want to see

interest rates coming down to 6 per cent," he said.

Conjuring up a vision of Britain - untrammelled by the ERM - buoyed by the fastest growth rate of any western economy, he said: "Interest rates in Britain are now not determined by bankers in Frankfurt. The chancellor is a free man."

The government's position that sterling would return to the ERM "as soon as conditions allow" was criticised more forthrightly by other Euro-sceptics. Sir Teddy Taylor, secretary of the Conservative European Reform Group,

described it as "arrogant and bumptious".

Sir Rhodes Boyson, former Conservative minister and another prominent Euro-sceptic, said that Britain needed to rejoin the ERM like it needed "a hole in the head".

But there was support for the government from Mr Hugh Dykes, Tory MP for Harrow East and chairman of the European Movement, who said membership of the ERM was "essential for this country's future prosperity".

The row over the ERM grew as the agenda for next month's Tory party conference was published. The motions on the agenda were submitted before July 13 but include a number of pleas for Britain to leave the ERM and several calls for a referendum on Maastricht.

Mr John Mason, the Scunthorpe solicitor who is this year's conference chairman, said he expected the conference to be "very lively" on occasions. He described its timing as "fortunate".

It also emerged that Baroness Thatcher, the former prime minister, will attend the Brighton conference, posing a delicate stage-management question for party organisers.

## Cold comfort in Midlands for Tories

By Paul Cheeseright,  
Midlands Correspondent

IF MR Norman Lamont had bought his lunchtime sandwiches at Five Ways, Birmingham, yesterday he would have found the reception as grey as the drizzle. No arm round the shoulders and "Nice one, Norm." Rather a mix of anxiety, anger, bewilderment and indifference as wordles about the future surfaced.

"I'm just sitting and waiting to see if my husband's still got a job," said Mrs Yvonne Turk, a teacher. "Interest rates are finishing the firm off. If interest rates go down, that's okay."

Concern among shoppers was not so much with the technical merits of the European exchange rate mechanism - which many confessed they knew little about - but with how the government handled the currency crisis and what it means for the economy.

Miss Karen McAuley, who works for a finance house, argued that "it's not done us any good going into the exchange rate mechanism - but I don't understand a lot of it" - but she was more concerned about the prospects of buying a house. "A lot of people are wondering whether they've done the right thing by voting the Conservatives in," she said.

Mr Neil Halliday, an accountant, considered that the events this week were "a disaster from start to finish". He added: "It was a waste of time and money to hold sterling's value. The decisions [to float the currency] should have been made far sooner. The government has certainly not covered itself in glory."

His view was widely shared. "Total mismanagement. Absolute shambles," complained Mr Roger Baker, a Conservative-voting computer-services executive. Mr Ken Cameron, a computer installation engineer, said: "I'd felt for some time the pound would get devalued. It was inevitable. The government actions were very amateurish."

There seemed to be little inclination to pin the responsibility for sterling's plight on perfidious Europeans. "This country needs to be in the front line of Europe," said Mr Osei Nana, an oesic consultant. But there were mistakes in the past, he said. "We should have devalued the pound a long time ago. If we had done there wouldn't have been a crisis."

Mr Cameron said: "I don't think the Germans can be blamed for it." The UK government was "stuck in a train of thought which is out of touch with reality". Mr Cameron was quite clear that there was "too much dogma". But Mr Baker had a word of warning about Europe. "We should have closer ties, but on the trading side," he said. "This getting closer politically, you're only going to see what's happening in east Europe. Everybody wants to go their own way."

Miss Lee Shue, a civil servant, thought "we should be with Europe, but it doesn't make any difference". She added: "The Tories don't know what they're doing anyway." Such implied lack of power over the great affairs of state over the past few years has led Five Ways shoppers to shrug their shoulders at the thought of government resignations. And it led to expressions of indifference on the part of two messengers, gossiping in the rain. "It doesn't bother me," said one of sterling's plight. His companion let loose: "Once they get in power they just change everything. It doesn't matter what you do. They're all liars."

## Lamont to leave US IMF gathering early

By Peter Norman  
in Washington

MR Norman Lamont, the chancellor, plans to leave Washington meetings of the International Monetary Fund and World Bank for London early on Monday to deal with any further developments affecting the UK economy and sterling.

He was originally due to stay in Washington until Wednesday to deliver speeches to the IMF and World Bank annual meeting in his capacity as UK governor of the IMF and current president of the European Community's council of economics and finance ministers.

The change of schedule means that the chancellor - who was due in Washington late last night - will take part in today's meeting of finance ministers and central bank governors from the Group of Seven leading industrial countries and Sunday's meeting of the IMF's policy-making interim committee. The results of the French referendum on Maastricht are expected during the afternoon session of the interim committee meeting.

The G7 meeting will bring Mr Lamont together with Mr Theo Waigel, German finance

minister, and Mr Helmut Schlesinger, Bundesbank president, for the first time since the two countries became embroiled in a bitter row over responsibility for the currency turmoil of the past week.

It is likely that the chancellor will again express concern about the present state of German economic and monetary policy. In an interview on BBC radio yesterday, Mr Lamont said he wanted "to be satisfied that German policy, which has produced many of the tensions within the exchange rate mechanism, is actually going to have some changes and to be able to operate within a more stable environment".

UK Treasury officials say Mr Lamont remains especially concerned about Germany's policy mix, where large budget deficits are helping to keep interest rates at high levels. At the Bath meeting of EC economics and finance ministers two weeks ago, the chancellor singled out the large-scale granting by Germany of subsidised credits to eastern Germany as an issue to be tackled by the Bonn government.

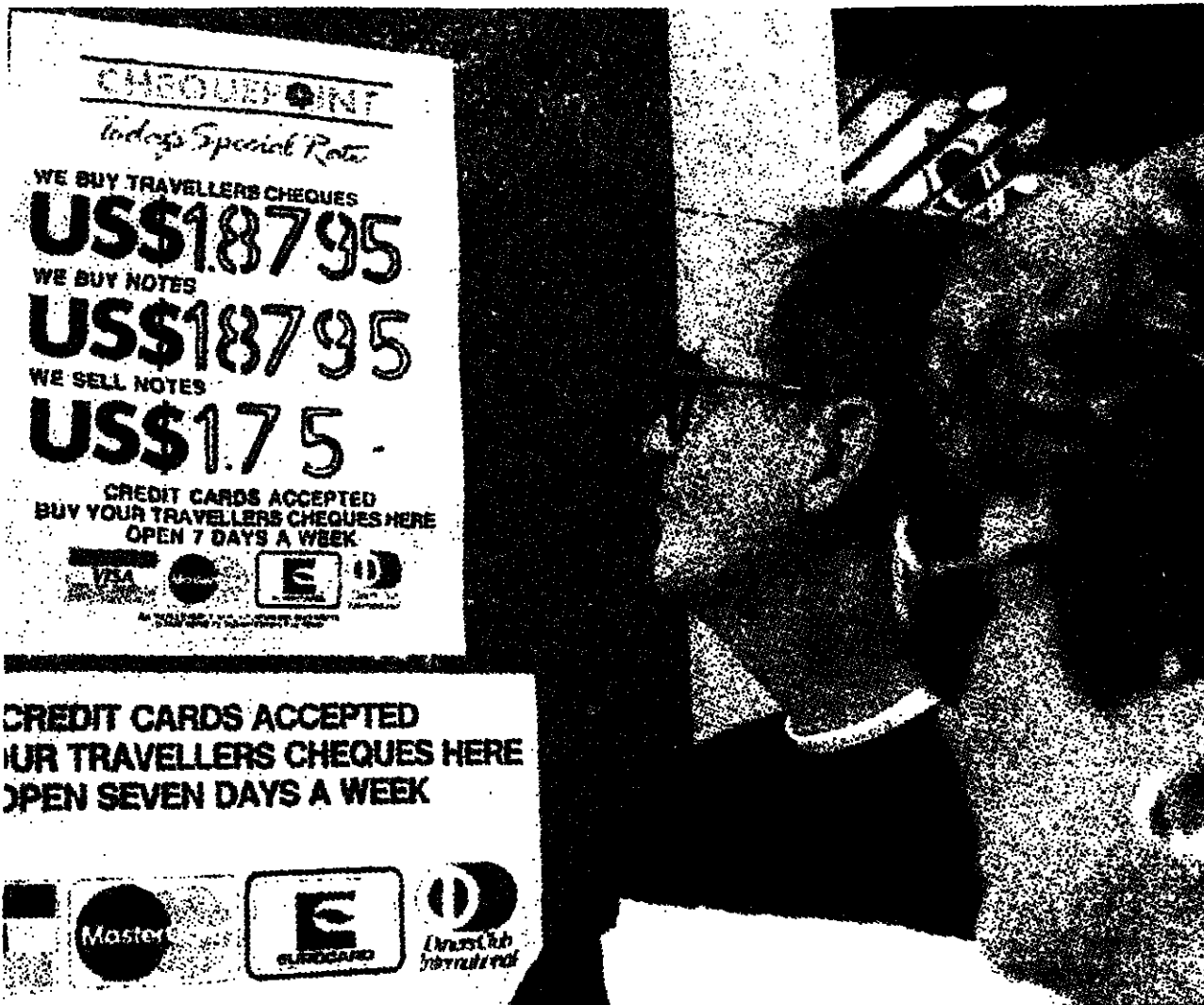
He was also critical of the Bundesbank's policy of targeting M3, the broad money

aggregate. Britain has argued that Germany's high interest rates are part of the difficulty of Germany's M3 expanding at a rate far higher than the official target range of 3.5 per cent to 5.5 per cent.

The British view, endorsed this week by the IMF in its World Economic Outlook report, is that Germany's high rates are contributing to M3's higher-than-targeted growth by causing investors to switch long-term funds into short-term bank deposits.

The chancellor has also been concerned about the rapid growth of "off budget" spending by the German public sector. The UK says that Germany's public-sector accounting practices give a flattering picture of the deficit because borrowing by bodies such as the Federal Post Office or the Treuhand agency in eastern Germany do not count as part of Germany's public-sector borrowing requirement.

The Bath meeting saw the first serious outbreak of tension between Mr Lamont and Mr Schlesinger. It has been reported that Mr Waigel had to persuade Mr Schlesinger not to walk out after Mr Lamont demanded an immediate cut in German interest rates.



US tourists study the exchange rates offered by one London dealer yesterday. The dollar closed in London at \$1.74 against the pound

## 'Inflation option' criticised

By David Owen

MR JOHN SMITH accused the government yesterday of taking "the inflationary option" in an attempt to undermine its claim that defeat of inflation remained at the core of its economic policy.

In a letter to Mr John Major, the Labour leader referred to the prime minister's statement last week that "the devaluer's option" would be "a betrayal of our future". He said: "Since then you have allowed the pound to be devalued by 10 per cent."

In spite of yesterday's statement by Mr Norman Lamont, the chancellor, that reducing inflation was still the government's overriding priority, "you have taken what you yourself described as the inflationary option", Mr Smith said. "For two years you have been telling the British people that all of the pain they have suffered from the recession - soaring unemployment, bankruptcies and high interest rates - was solely designed to achieve the 'great prize' of zero inflation."

Mr Smith said Mr Major had remained "totally silent" since the "catastrophic economic events" of Wednesday. "Yesterday, you told your cabinet that the chancellor should not be seen as an air raid shelter," he said. "That is exactly how you have used him during the last 48 hours."

The letter follows Labour claims that the government squandered £500m of public money as part of the failed attempt to prop up the pound. Ms Harriet Harman, shadow chief secretary to the Treasury, said that that money could have created 50,000 Youth Training places, as well as 10,000 more offers of Enterprise Allowance and set up a temporary programme creating 150,000 jobs.

Leftwingers called on Labour to drop its policy of opposition to a referendum on the Maastricht treaty and grab the opportunity to defeat the government. Here is an opportunity to defeat the government."

Labour faced intense pressure from within its own ranks for a referendum, he said.

## Housing market holds its breath

By Andrew Taylor,  
Construction Correspondent

AT 9 o'clock on Wednesday morning Abbey National launched a 10.5 per cent fixed-rate mortgage scheme offering to freeze payments until the end of the century. Six hours later the offer was sold out and closed.

All the funds allocated for the scheme were used up in six hours, according to Abbey National. News of the offer shot round by word of mouth. People who waited for letters to arrive the following morning missed out - or did they?

Customers who signed up for the Abbey offer, which must have looked a snip when base rates appeared set to rise to 15 per cent on Thursday, must now be wondering if they have got such a good deal.

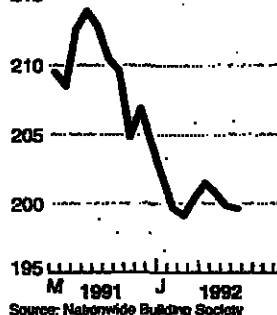
Mortgage lenders, instead of pushing up rates, are now saying that they might even come down by 1 or 2 percentage points by Christmas. It has been that kind of week for home owners - from despair, to relief, to hope, in less than two days.

People who rang estate agents on Wednesday to pull out of a house purchase will this weekend be reconsidering whether to reopen the deal, try to renegotiate a lower price, start renting, or give up altogether and emigrate.

Unfortunately, there is no clear answer to the conundrum. That will depend on which economic policies the

## UK house price index

Oct. 1983 = 100



government adopts in the wake of sterling's withdrawal from the exchange rate mechanism. There is no question what those who make their living from buying and selling houses want the chancellor to do: cut interest rates and then cut them again.

Mr David Holliday, president of the House Builders Federation, says: "The needs of the domestic economy must now be put first, and that means further reductions in interest rates from 10 per cent to 8 per cent or less."

Most builders, estate agents and, no doubt, many home owners would be prepared to pay the price of higher inflation in return for letting sterling float and getting lower interest rates.

The worst scenario for them will be if the government, in its pursuit of lower inflation, continues to maintain high

real interest rates while letting the pound float. House prices and sales would continue to drift and recovery would be delayed for even longer.

The market, meanwhile, remains flat on its back. Builders say that sales in September, even before this week's currency crisis, had been desperate.

ECC, the world's biggest producer of china clay, this month announced a £13m provision, mostly to cover falling prices in its depressed UK house-building business. Mr Andrew Teare, its chief executive, says: "It is every bit as bad as you could imagine it to be."

The events of this week will have pushed confidence even lower. "I cannot see anybody wanting to rush out and buy a home at the moment," says Sir Brian Hill, president of the Building Employers Confederation.

He says lower interest rates will not be enough on their own to kick-start the housing market. He wants the government to end stamp duty on house sales and raise the ceiling for mortgage tax relief.

It is going to take a long time for confidence to return to the housing market, even assuming that interest rates come down. For a start, there will be a large backlog of repossessed homes to shift before the market can get anywhere near back to normality.

People will also have to be convinced that they will not lose their job in a still weak

British economy before going out and buying a new home; and the shock to home owners of watching their house price fall below the value of their mortgage is likely to blight the market for some time.

House prices in southern England and East Anglia have on average fallen by between 25 per cent and 30 per cent since 1988-89. Even assuming that prices rise at an average 5 per cent a year from 1993, people who bought in the late 1980s will have to wait until next century to get their money back.

Of course, prices could rise faster if inflation was allowed to let rip again, but there is no sign that the government has abandoned its aim of reducing inflation through monetary discipline.

It is also worth remembering that the bottom of the last housing cycle was in 1981 and that it was not until the mid to late 1980s that prices really began to take off again.

All those thoughts will be crowding the minds of people vacillating this weekend over whether to complete that house purchase after all.

Whichever way the government jumps, a rise in sales is unlikely to start before next year. Even then, volumes will have to increase substantially before prices start recovering. History may show that the housing recovery began with Britain's withdrawal from the ERM, but it is going to be a very long haul back.

## Home agents say more cuts needed

By Richard Evans,  
Chris Tighe and Jimmy Burns

ESTATE AGENTS, battered by the impact of the recession and stagnant house sales, are praying that interest rates will come down in the near future to boost the housing market.

Some were reporting an upsurge in telephone inquiries yesterday as potential clients reacted with cautious optimism to the latest market developments.

Mr Richard A Brassard of south London agents Courtenay said he welcomed the prospect of higher inflation as a result of a weakening pound. "The house market will not get going unless there is inflation. The idea that you can go on having low inflation at the cost of stagnation is crazy."

Estate agents fear that without still lower interest rates, potential buyers will still be unwilling to complete a deal.

In the south-west, where property values are down by an average of 35 per cent on their peak levels of four years ago, properties are selling, "but only if people accept it's 1992 and not 1988", said Mr Ian Fraser of Fulfords, an estate chain with 25 offices throughout the region.

"As long as people are prepared to accept a reasonable price, there is every chance a property can be sold reasonably quickly," he said.

On Tyneside, noted for its resilience in the face of long-standing high unemployment and restructuring of the local economy, the events of the week had little impact.

Mr Stan Morville, managing partner of Dollyer Waller, a north-east agency, said there had been a "30-minute reaction" to Wednesday's turmoil. Within half an hour of the proposed increase in the base rate to 15 per cent, a couple of potential buyers had rung to say they would not proceed. The next day they phoned back to say they had changed their minds again.

"Whatever mortgage rates are, they always reach a level of public acceptability," he said. "There are always those who have a need to move and they get out and get on with it. Until this week's cock-up, we were getting back there."

In the London area, which has seen the heaviest fall from peak prices, every technique is being used by estate agents to try to get the market moving, but it is lower interest rates that would be most effective.

Ms Annie Allan of a Folkard & Hayward branch in south London, said: "The vendor has become worldly-wise and is prepared to wait... people are waiting to see how much further the market is going to fall."

## Theory of bond investment culture comes unstuck

John Plender on how the ERM crisis has dented a fashionable economic viewpoint

IN THE period between Britain's entry into the exchange rate mechanism in October 1990 and the negotiation of the Maastricht treaty last year, it became fashionable to talk about the development of a "bond culture" in Britain.

With the country beginning to import lower German-style rates of inflation via the ERM, it was suggested the relative attractions of equities would decline vs. a us gilt; fixed-interest securities would become much more attractive in a world that harked back to the more stable price conditions of the 19th century.

It was always a contentious thesis and after the events of this week it scarcely looks tenable. Within the ERM the Bundesbank provides the nearest alternative in the modern

world to the gold standard on which the 19th century operated. Britain's exit from the ERM demonstrates, among other things, how hard it is to recreate the kind of climate in which currencies do not lose half their value in the space of a mere decade or two.

The problem was neatly encapsulated in ERM's latest Exchange Rate Monitor, which pointed out that since Britain came off the gold standard in 1914, only one government has left office with sterling at a higher level than at the outset.

The government in question was the Conservative administration in which Winston Churchill returned to gold at the pre-First World War parity of \$4.48.

The depression followed. And that, of course, was the way stable prices came about in the 19th century. If Mr Major and Mr Lamont had been born 100 years earlier and had presided over a comparable crisis, they would have seen runs on the banks, with interest rates soaring to unconscionable levels. The devaluation would have been accompanied by falling prices, as a shellshocked populace retreated into the prudent financial behaviour that invariably precipitates deflation.

Britain today could, like Sweden, have tried to shore up sterling by resorting to further intervention, 500 per cent overnight interest rates and the rest. But the financial system

today is less able to take the strain. Indeed, its whole structure is predicated on a bail-out in such circumstances. A 19th-century banker operated on a ratio of capital to deposits that sometimes went as high as 40 or 50 per cent. Modern ratios of 8 per cent plus in effect presuppose the existence of a lender of last resort. So, too, does the growing dependence of building societies on wholesale deposits. With more than half their net inflow of funds coming from the wholesale markets, building societies would not have survived a serious attempt to defend the pound for long.

The miracle is that the Bundesbank managed to establish such anti-inflationary credibility in a world without a link to gold. But then, it is easy to forget how long it took for the German central bank to acquire that reputation. Even when a central bank has succeeded in winning credibility, it may still take an extraordinary time for the portfolio shift into bonds to run its course.

In a British context, with more than two thirds of equities in institutional hands, a full shift to a bond-dominated investment culture would probably not have come until the occupational pensions system went back to denominating its contractual liabilities in nominal terms.

With sterling floating, the immediate case for bonds can only be made on conventional

grounds. Many brokers are raising their forecast for retail price inflation from 3 per cent next year to 4% or even 5 per cent after this week's events. On that basis, long gilts are no bargain, although the short end of the market will clearly benefit if the government encourages rates to come down thicker and faster than now anticipated.

The government is rightly perceived to have suffered a humiliating defeat this week. Yet in the long run the real losers from the ERM debacle may, paradoxically, turn out to be Germany and the Bundesbank.

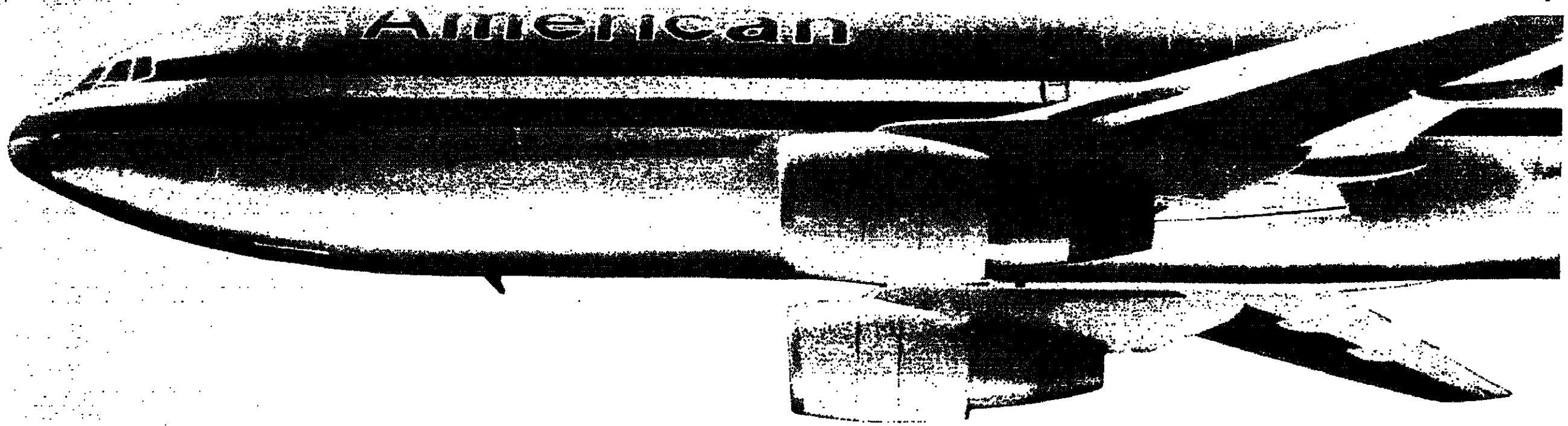
The recent turmoil in currency markets reflects the German failure to manage the fi-

cal consequences of unification. As Mr Brian Reading of Lombard Street Research points out, the whole resource cost of German unification has been borne by foreigners through the deterioration in the German current account.

In the end, the share of west German real disposable incomes in national income will have to be cut to foot the unification bill. The strength of the D-Mark has merely deferred the problem. It follows that the D-Mark, like the dollar in comparable circumstances in the mid 1980s, will weaken in due course.

If a hard core of the ERM survives, the D-Mark and the credibility of the Bundesbank might sustain a damaging blow. Whether it is sufficient to test the German bond culture remains to be seen.





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## NEWS: STERLING AND THE UK ECONOMY

■ Industry and investors optimistic ■ Jaguar seeks cut in interest rates ■ CBI reports expectations on prices 'subdued'

# Forecasters vary on economic options

# Big upheaval raises hopes in industry

By Edward Balls

ECONOMIC forecasters have taken a beating in the past two years. But, set against the appalling record of the Treasury model, the credibility of the City pundits does not look so bad.

The FT asked three leading City forecasters to outline the possible economic consequences of alternative routes that the government might be tempted to take. The results should be interpreted with care.

The two alternative courses, which Treasury ministers and civil servants will probably be pondering this weekend, are:

● **Stay on course.** Sterling rejoins the exchange rate mechanism after the French referendum at a new central rate of DM12.65. That means the pound has been devalued by 10 per cent, but interest rates remain at 10 per cent and fall only in line with the forecasters' expectations for German interest rates.

● **Go for growth.** The government does not rejoin the ERM but instead cuts base rates to 7 per cent in the last quarter of this year. Sterling falls to DM2.40, a devaluation of 19 per cent, and then hovers around that level over the next two years. Two of our forecasters assume that interest rates remain at 7 per cent, but Mr Keith Skeoch found the scenario too unbelievable and forecast a rise in base rates back to 9.7 per cent next year and 12.7 per cent in 1994.

The three pundits, as is natu-

## Where next for the UK economy?



Keith Skeoch, James Capei



Bill Martin, UBS Phillips and Drew



Kevin Gardiner, SG Warburg Securities

### OPTION ONE: STAY ON COURSE ● Rejoin ERM ● 10% Base rates ● 10% Devaluation (DM 2.65)

Annual % change	1993	1994	Annual % change	1993	1994	Annual % change	1993	1994
GDP	1.5	3.2	GDP	0	1.7	GDP	2.1	2.8
Inflation, RPI Q4	2.7	2.4	Inflation, RPI Q4	3.0	3.2	Inflation, RPI Q4	4.0	4.9
Manufacturing output	1.1	1.7	Manufacturing output	1.3	2.6	Manufacturing output	2.9	3.8
Current account, % of GDP	-1.6	-2.3	Current account, % of GDP	-2.7	-2.5	Current account, % of GDP	-2.2	-2.3

### OPTION TWO: GO FOR GROWTH ● Stay out of ERM ● 7% Base rates ● 19% Devaluation (DM 2.40)

Annual % change	1993	1994	Annual % change	1993	1994	Annual % change	1993	1994
GDP	2.0	1.9	GDP	0.9	3.3	GDP	4.2	4.4
Inflation, RPI Q4	3.6	7.9	Inflation, RPI Q4	2.3	3.1	Inflation, RPI Q4	5.5	6.8
Manufacturing output	2.5	0.6	Manufacturing output	2.4	4.1	Manufacturing output	6.4	6.7
Current account, % of GDP	-2.0	-2.7	Current account, % of GDP	-2.8	-2.4	Current account, % of GDP	-2.1	-2.2

ral, disagree more than they agree about the consequences of the two approaches.

First the common ground. In each case, lower interest rates means higher growth next year, with manufacturing benefiting more than the whole

economy because of the larger sterling devaluation. But the cost of the strategy is higher inflation in 1994 than in 1993.

There the similarities end. Inflation explodes outside the ERM in the economic models of Mr Kevin Gardiner and

Mr Skeoch. Higher imports mean that the devaluation makes little difference to the current-account deficit in Mr Gardiner's model. But under Mr Skeoch's assumptions, inflation and the current account rise so much that the

government is forced to raise interest rates to protect the pound.

Mr Bill Martin, long an opponent of ERM membership, is much less worried about the inflationary threat from the devaluation.

Depressed consumer and business sentiment mean only a modest recovery in GDP growth under either strategy in 1993. The larger devaluation delivers a lower current-account deficit but also marginally lower inflation in 1993.

## Punt protected by exchange controls

From Tim Coone in Dublin

THE REMNANTS of foreign exchange controls in Ireland saved the Irish pound (punt) from further pressure yesterday, burning the fingers of speculators who had forced the punt to the floor of the narrow band of the ERM on Thursday.

The punt was yesterday trading around DM2.64, comfortably above its floor rate of DM2.619, as buyers came back into the market, many seeking to cover short positions they had taken out as sellers the day before.

Mr Chris Johns, the head of research in the Bank of Ireland, said: "The market for the punt is not a deep and liquid one, as it is for sterling. It is very difficult for a speculator who is short of Irish pounds to get ready access to them."

Exchange controls have been progressively lifted in Ireland since 1988 but there are still a few restrictions, which are due to be phased out by the end of this year. They limit the freedom of banks in Ireland in lending Irish currency abroad, especially for short-term speculative purposes.

Speculators who took a short

position on Thursday - who contracted to sell punts, expecting to borrow them to cover the contract and to buy back into the currency at a lower price later - found by Friday morning that there were very limited funds available to borrow.

Overnight money market lending rates for the punt shot up to more than 300 per cent in London and other European financial centres yesterday. A trader in Jersey said: "Overnight rates for the punt have gone crazy. We are not even quoting it."

Rumours of some quotes exceeding 10,000 per cent for

overnight funds were widespread, although it is not thought deals were struck.

There was no need for central bank intervention to support the punt yesterday.

In confident mood, Mr Bertie Aherne, the Irish finance minister, said the recovery of the punt "demonstrates the confidence the markets have in the strong currency position of the Irish pound within the narrow band of the ERM."

"Our trade performance is an indicator of the underlying competitive strength of our economy. Our trade surplus was £1.76bn in the first six months of 1992 and is expected

to be about £2.7bn for the year as a whole, over 10 per cent of GNP. This far exceeds the expected surpluses of countries such as Japan and contrasts favourably with the negative balance expected for the EC."

Figures published on Thursday show that inflation has fallen in Ireland to 2.8 per cent for the year to the end of August. Earlier this year, the government projected a 3.75 per cent inflation rate for 1992.

Overnight interest rates are quoted on an annualised basis. A trader at Barclays said a quoted rate of 250 per cent was equivalent to 1.5 per cent payable in interest after 24 hours.

## Balloon expenses inflated

A DELAY in the start of a transatlantic balloon race increased its cost by \$10,000 because of the sterling crisis, Mr Alan Noble, the race director, said.

Five teams took off from Maine in the US on Wednesday after he used his credit card to pay a \$50,000 bill for facilities during a one-month wait for improved weather.

As the balloonists floated over the Atlantic, sterling fell and Mr Noble expects his bill to be higher.

A race official in Rotterdam said the British were fourth behind the Dutch, Belgians and Americans. The Germans trailed.

## Little upturn indicated

By Peter Marsh, Economics Staff

THE economy continues to be stuck in recession, according to the latest figures on the money supply released yesterday by the Bank of England.

M0, which mostly comprises notes and coins in circulation, increased by 1.4 per cent in the year to the end of August, the same figure as for the 12 months to July 31. M4, a broader measure, which also takes in bank and building society deposits, rose 5.5 per cent in the year to August 30, after 5.7 per cent in the year to the end of the previous month.

The seasonally adjusted figures indicate little upturn from the economic decline that began about two years ago.

Lending in sterling by banks and building societies to the private sector rose £2.3bn last month, less than the figure of about £2.9bn expected in the City.

The picture of a flat economy fitted in with figures from the British Bankers Association, which said the big commercial banks lent a seasonally adjusted £700m last month, the smallest figure for five months.

A breakdown which is not seasonally adjusted shows that loans to individuals, mainly for

mortgages, rose in the month by £1bn.

That, however, was more than offset by repayments by companies, particularly manufacturers. Overall, individuals and companies repaid a net £211m to big banks, on a non-seasonally adjusted basis.

Much of the extra lending to people was linked to the extra demand for mortgages caused by the stamp duty holiday that ended on August 19.

The association said: "In the continued absence of company borrowing, the recent recovery in [seasonally adjusted] bank lending is likely to come to an end."

## Order books still down, CBI says

By Emma Tucker, Economics Staff

BRITISH manufacturers' order books remain well below normal and expectations of price rises are more subdued than at any time since 1989, the Confederation of British Industry said yesterday.

In its latest survey of industrial trends, carried out shortly before the recent turbulence on the financial markets, three out of five companies questioned said their total order books were below normal.

Manufacturers, surveyed between the end of August and mid September, said they expected output to continue falling during the next four months. Those expectations are likely to have changed since Britain's departure from the European exchange rate mechanism heralded the prospect of lower interest rates.

Export order books are broadly steady, but 44 per cent of companies said they were too low and only 11 per cent said they were above normal. Demand for exports showed no improvement, but was not as weak as in July.

According to the CBI, manufacturers' hopes of increasing prices were at their weakest for 33 years. Only 8 per cent of the 1,439 businesses in 50 industries said they expected to raise average prices for domestic orders in the next four months. Stocks of finished goods have risen to levels that are thought to be too high in relation to expected demand.

Mr Robin Cook, shadow trade and industry spokesman, said: "What businesses now need to hear is a government willing to say that it will take all measures necessary to get the economy on the road to real recovery."

## Shareholders against ERM

MORE THAN six out of 10 private shareholders believe Britain should stay out of the exchange rate mechanism, according to a poll of users of Sharelink, the Birmingham-based telephone share dealing service, yesterday.

The company asked its first 1,000 clients if they agreed with abandoning the ERM - 638 said yes, 188 wanted to return and the rest did not know.

## Moves on crime 'face handicap'

EFFORTS TO tackle organised crime in Europe may suffer if the Maastricht treaty falls apart, Mr Kenneth Clarke, the Home Secretary, said yesterday. He had attended a meeting of interior and justice ministers in Brussels prompted by the Mafia murders of two senior judges in Sicily.

## Rate plea as 120 Jaguar jobs go

By John Griffiths

A FURTHER 120 jobs are to be cut by Jaguar, Ford's luxury car division, on top of 700 announced last month.

The intended cuts were disclosed yesterday by Mr Nick Scheele, Jaguar's chairman and chief executive, who also called for further interest rate reductions to stimulate the UK economy.

Mr Scheele said: "The current rate is still too high." He forecast that Jaguar's total sales this year would be unchanged at about 25,000 units.

Sales in the first half of this year declined further from year-ago levels, to 11,800 from 12,900, but Mr Scheele said he expected a minor strengthening, partly due to sterling's effective devaluation.

Only Jaguar's salaried staff will be affected by the latest cuts. They will bring Jaguar's

total employment down to just over 7,100, compared with 12,100 in 1990 and slightly more than 8,000 at the end of last year.

Last month's reductions mainly affected production workers, as Jaguar trimmed output plans to make only 23,000 cars this year, compared with an earlier forecast for the year of 27,000.

The new figure is less than half the output level of the late 1980s.

Renault Truck Industries, the French vehicle group's loss-making UK commercial vehicles subsidiary, announced that it was cutting 35 of the remaining 517 jobs at its manufacturing plant in Dunstable, Bedfordshire. The company blamed the severely depressed state of the UK truck market for the job losses, most of which are expected to be compulsory.

## The rising threat to return to growth

Emma Tucker explains why the jobless present an obstacle to an economic recovery

A SUSTAINED recovery in growth as a result of Britain's departure from the European exchange rate mechanism might be severely hampered by the growing pool of unemployed left in the wake of the government's tight monetary policy. Figures this week showed that unemployment in the UK has grown to 2.8m, its highest level for five years, and most economists expect it to carry on rising next year even if interest rates creep downwards.

The Treasury's economic model suggests that a 10 per cent devaluation of the pound, with no change in interest rates, would reduce unemployment by 204,000 over two years. Economists are sceptical. Ms Ruth Lea, an economist at Mitsubishi Bank, said: "The immediate outlook for unemployment is not very good. It tends to be a lagging indicator anyway and I don't expect to see a rapid turnaround."

The extent of damage

already inflicted on the jobs market in the UK was highlighted this week in a survey carried out by the Department of Employment in the spring.

The Labour Force Survey, quarterly results of which were published for the first time this week, gives a more comprehensive measure of economic activity than the monthly figures published by the department, which simply record the number of people claiming benefit.

The latest LFS involved more than 60,000 households across Britain, and covered about 150,000 people. In addition to the so-called "claimant" unemployment measure, the LFS covers many groups that do not qualify for benefits, such as women returning to the labour market after raising a family, the self-employed, and young people aged 16 and 17 who do not have places on Youth Training schemes and are actively seeking work.

The survey throws light on

those sectors of the economy which have suffered the most damaging losses in the past year.

Contrary to the impression that this recession has been concentrated in the service sector, it shows that every sector of the economy has recorded a bigger percentage fall in employment than the services sector.

The numbers of people employed in services was only 0.9 per cent lower in spring this year than in spring last year. That compares with a 9.3 per cent fall in construction and a 9 per cent fall in energy and water supply. Employment in manufacturing fell 5.5 per cent. The biggest fall was in agriculture, forestry and fishing, where the number employed fell 10.5 per cent.

Furthermore, a breakdown of how different occupations have weathered the recession shows that while non-service sector occupations have suffered damaging losses, the number employed as managers and

administrators has risen since last year, as has employment in professional occupations such as solicitors, businessmen and doctors.

The number of craft workers either self-employed or working as employees fell 10.6 per cent, the sharpest fall out of nine groups of occupations. The numbers working as plant and machine operators fell more than 8 per cent.

The only other group of occupations where employment rose was in personal and protective services, which covers the armed forces, catering, nursing and childcare.

This pattern of unemployment - among unskilled workers and often in manufacturing industry - is very similar to that created in the last recession. Unemployment rates are much higher for men than for women and among unskilled and poorly educated workers.

In the 1980s, when the rate of

unemployment reached 11 per cent, the jobless total continued to rise until 1986, more than four years after the economy emerged from recession. The debilitating effects of long-term unemployment on the skills and motivation of those workers meant that unemployment stayed high even after the recovery gained pace.

Furthermore, the shortage encouraged skilled workers to force up their wage demands with an inflationary effect on the economy. Whether unemployment starts to fall in two years or four years, the high levels of skill shortages created by prolonged unemployment may well hinder the recovery once more.

Mr Gerard Lyons, chief economist at DKB International, the Japanese bank, said: "We have invested too little in capacity and too little in people. Skills shortages are going to be a problem that constrains growth for some time."

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NOTICE is hereby given that the Annual General Meeting of the Shareholders of FIDELITY WORLD FUND, a société d'investissement à capital variable organised under the laws of the Grand Duchy of Luxembourg (the "Fund"), will be held at the registered office of the Fund, Kansallis House, Place de l'Etoile, Luxembourg, at 11:00 a.m. on September 29, 1992, specifically, for the following purposes:

1. Presentation of the Report of the Board of Directors.
2. Presentation of the Report of the Auditor.
3. Approval of the balance sheet and income statement for the fiscal year ended May 31, 1992.
4. Discharge of the Board of Directors and the Auditor.
5. Election of six (6) Directors, specifically the re-election of Messrs. Edward C. Johnson, Jd. Barry R. J. Bateman, Charles T. M. Collis, Charles A. Fraser, Jean Hamilius and H. F. van den Hoven, being all of the present Directors.
6. Election of the Auditor, specifically the election of Coopers & Lybrand, Luxembourg.
7. Declaration of a cash dividend in respect of the fiscal year ended May 31, 1992, and authorisation of the Board of Directors to declare further dividends in respect of fiscal year 1992 if necessary to enable the Fund to qualify for "distributable" status under United Kingdom tax law.
8. Consideration of such other business as may properly come before the meeting.

Approval of the above items of the agenda will require the affirmative vote of a majority of the shares present or represented at the meeting with no minimum number of shares present or represented in order for a quorum to be present. Subject to the limitations imposed by the Articles of Incorporation of the Fund with regard to ownership of shares which constitute in the aggregate more than three percent (3%) of the outstanding shares, each share is entitled to one vote. A shareholder may act at any meeting by proxy.

Dated: August 24, 1992

BY ORDER OF THE BOARD OF DIRECTORS

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On top of the financial and economic upheavals of recent days, the French vote on Maastricht tomorrow.

'Oui' ou 'Non' - whatever happens the implications will be important for you and your business.

Monday's FT digests the weekend's developments with its usual insight and analysis. No one will be better placed to explain the consequences.

Make sure of your copy of Monday's FT. There will be great demand.

**No FT...no comment.**



## NEWS: INTERNATIONAL

# Clinton, me and a question of draft-dodging

Amid the controversy over the Democratic candidate and the Vietnam war, US Editor Jurek Martin recalls his own experiences



can citizen.

One Saturday morning in the autumn of 1968 a letter, with a California postmark, was delivered to a south London address. It summarily instructed the recipient to report for induction into the US Army at Fort Ord at a date which, on close inspection, turned out to be three weeks before the letter actually arrived.

This was distressing, because the recipient had recently been told by his employer that he was about to be posted to its Washington office.

The prospect of having to withdraw from what was then, and still is, one of the best jobs in journalism, led to a miserable weekend.

The Monday mail brought miraculous relief, another letter with a California postmark one day later than the first. It acknowledged a "clerical error" and confirmed that the recipient was indeed "an alien not currently liable for military service". Both letters had been sent surface mail and had taken the best part of six weeks to arrive.

It may only be a minor part of Mr Clinton's explanations that his draft board communicated with him in Oxford by steam packet, but personal experience confirms that this is exactly what draft boards did in those days. Indeed, the controversy surrounding the Democratic presidential candidate revives a lot of half-buried memories of the fear of any communication from them.

I had gone to live, and teach, in

California in 1963. Before the changes in US immigration laws in 1967, it was easy for any Briton not a card-carrying communist and without a prison record to emigrate and acquire the coveted green card. You were obliged, however, after a six-month grace period, to register with your local draft board and were liable to be called up.

Before the Vietnam war escalated, it was a small risk. In any case, educational, occupational and marriage deferments were available. Even after President Lyndon Johnson cancelled many of these in 1965, prompting a deadline-beating rush from California to the "quickie" wedding chapels in Reno, Nevada, many of whom mysteriously stopped the clock in their records, there were always pullable strings with the local draft board.

I was teaching at a new private school and was technically not qualified for an occupational deferment.

But the school principal, who had served 30 years in the US Marines, was an intimate of my rural draft board and if he could not fix things the school owner, a big rancher, certainly could. It was common knowledge that the only young men that draft board did send to serve - the lottery was not introduced until 1969 - were the offspring of parents without clout, such as resident Mexican farm labourers.

It became more complicated after I left the school, and thus its protection, but stayed on doing other things in California. I was reclassified I-A, a prime candidate for the draft. I appealed against this, in writing, a process which took some months, but was unsuccessful.

Continued dissembling and prevarication with the draft board was possible, but the net was obviously closing and so was the fear that the bureaucracy would make connections. A tax return or a traffic viola-

tion, for example, might serve as a tip to a draft board. Another English friend in the same boat was arrested one night and left the country as soon as he was discharged the following day.

I would never claim to have been vocal against US policy in Vietnam but the thought of fighting in a war which, like most young American friends, I strongly opposed did not exactly appeal. Unlike them, I had a way out, to "go home", and duly did in 1966, advising the draft board of my London whereabouts and having my status reclassified, and that, excepting one awful weekend over two years later, was where it has all rested.

This is just one tiny personal story. Many others have long since come out of the closet, none more effectively than James Fallows's 1975 magazine article about the contrasting experiences of his class at Harvard, less than 10 per cent of

whom ever served, and the fate of the less privileged children of the Boston working class, who did, in droves.

The point is that there is a whole generation of Americans to whom, for good reasons and bad, avoiding a system which had become institutionally corrupt was the most important thing in their young lives. Thousands went so far as to go into exile.

The lottery did not render it pure again because there were still ways round it. Bill Clinton set out his reasons for seeking to avoid it in a 1989 letter that was painfully honest in its reasoning and remarkably frank in its confession that, even then, he was only registering because he harboured political ambitions.

Is this the fatal flaw which will deny him the White House? The Bush campaign cleverly contends that it is not what he did then

which is at issue, though it surely is a subtext, but how he recalls it, selectively, now.

A more revealing comment this week from a Republican official was the promise to "rip the skin off the fuy".

Picking holes in his explanations of the events of 23 years ago seemed this week the biggest shot left in the president's re-election armoury and, in such a personalised political environment, it may still pack fire-power.

If so, then Dan Quayle, Dick Cheney and Phil Gramm, three Republicans with presidential ambitions but no military service, may wonder if they, too, will one day fall victim to the Vietnam syndrome.

But it stretches credulity that it will make enough of a difference. Today's war is not Vietnam but the economy. If it were the other way round, the above true story would probably never have been told.

## Russia 'needs up to \$20bn' of external finance

By Leyla Boulton in Moscow

RUSSIA will need \$15bn-\$20bn in external financing next year to bridge its balance-of-payments gap even after a "reasonable" foreign debt rescheduling, Mr Peter Aven, the foreign economic relations minister, said yesterday.

Mr Aven and his colleagues will make the first detailed presentation of "four or five scenarios" for a rescheduling of the former Soviet Union's \$70bn (\$38.5bn) foreign debt to the Group of Seven industrial nations in Washington over the next few days.

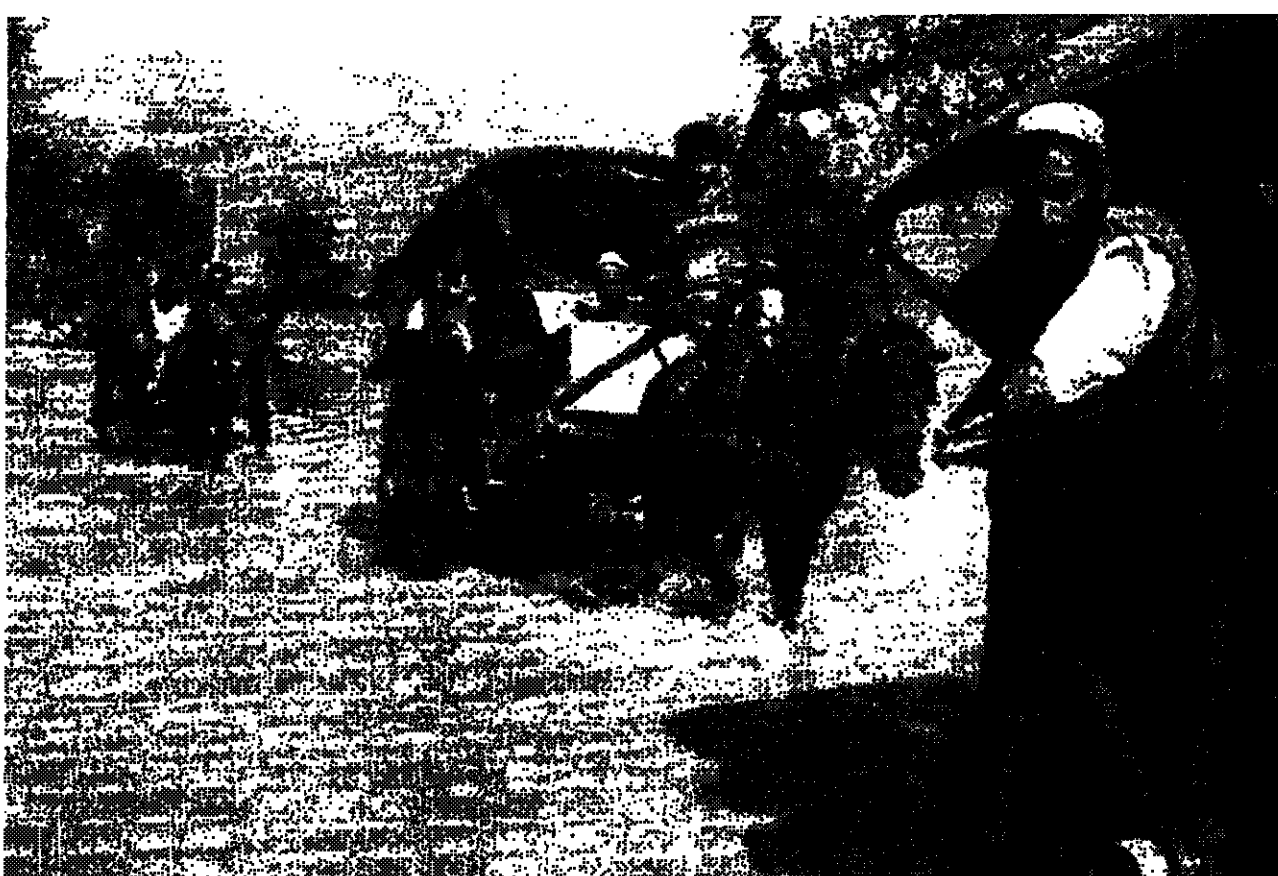
He said the various proposals had one common goal: to ease the debt burden so that Russia would only have to pay about \$2.5bn-\$3bn next year instead of the \$20bn falling due in 1993. But even if that was agreed, Russia would still need additional balance-of-payments support while it pursued painful market reforms.

He rejected a claim by the International Finance Institute, a Washington-based banking lobby, that Russia was capable of repaying more money if it put its house in order.

Although he has himself estimated annual capital flight from Russia at \$3bn, Mr Aven said "only Hitler or Stalin" could stop such phenomena quickly.

If a rescheduling accord is not ready for final endorsement by the wider Paris Club of creditor nations at the end of the month when a present debt deferral expires, the latter is to be extended for 15 days.

Russia is also trying to persuade other republics to renounce claims on the former Soviet Union's assets in return for which Russia will assume sole responsibility for its foreign debt. None of them can make hard currency repayments, except possibly Turkmenistan, which has gas.



SEEKING DRY REFUGE: Kashmir families drive horse-drawn carts loaded with possessions through flooded fields 40km north of Srinagar, the Kashmir capital, Reuter reports from Islamabad. Army boats and helicopters have helped to evacuate 3m people made homeless by the floods, which have claimed the lives of over 1,000 people.

## HK airport proposals criticised

By Simon Holberton in Hong Kong

PRO-BEIJING newspapers yesterday published strong criticism of Hong Kong's revised proposals for financing its new airport, raising doubts about whether China would agree to them.

The newspapers called the plan to raise direct government investment in the HK\$183.7bn (£11.2bn) project by HK\$40bn "insincere and unconstructive".

Ta Kung Pao, a communist newspaper, said the government had "ignored the principle of cost-effectiveness, spending Hong Kong taxpayers' money at its discretion on the one hand and trying to use the special administrative region government's profits in advance on the other".

Wen Wei Po, another newspaper, said: "The financial problem can only be solved when the British side comes up with a proposal that can reduce costs."

Mr Hamish Macleod, financial secretary, said he was disappointed by the reaction, but the government would wait to hear China's official response.

## US, UK oppose Bosnia no-fly zone

By David White, Defence Correspondent and Frances Williams in Geneva

THE US and Britain are opposed to any immediate attempt by western nations to enforce a "no-fly" zone in Bosnia as a means of preventing air attacks by Serb forces.

Their caution over French proposals for a ban on military flights became clear during two days of talks in London with Mr Dick Cheney, US defence secretary. Mr Cheney said yesterday the idea was still being discussed but described the proposed ban as "a bit of sideshow" compared with the main problem of how to achieve a political solution.

The two co-chairmen of the Geneva conference on the former Yugoslavia, Mr Cyrus Vance and Lord Owen, and the Finnish mediator on Bosnia, Mr Martti Ahtissari, met separately with the three sides.

Further meetings are scheduled for today and Monday. Prospects brightened, however, for a resumption of relief flights into Sarajevo. Speaking before a meeting with Mrs Sadako Ogata, UN High Commissioner for Refugees, Mr Karadzic confirmed that he would support a "no fly" zone in the vicinity of the humanitarian aid corridors, though not for Bosnia as a whole.

Mrs Ogata had said earlier she would recommend an immediate restart of the Sarajevo airlift if she received satisfactory assurances from the warring factions on the safety of flights.

Mr Karadzic said that in the Bosnian talks he would be pressing for an "immediate and

unconditional" ceasefire, to be followed by negotiations to set up a confederation of three constituent states controlled by Serbs, Croats and Moslems. British officials said the best course would be a voluntary agreement covering military flights, backed by the UN Security Council. Such an agreement would need to be monitored by the UN, and discussions were focusing on how this might be achieved by ground-based personnel at airports.

If the agreement were breached, there might have to be further negotiations aimed at setting up "some sort of enforcement", the British officials set.

request of Italian and French justice ministers following the assassinations of anti-Mafia judges Mr Giovanni Falcone and Mr Paolo Borsellino in Sicily.

The Italian delegation included Mrs Lilliana Ferraro, Mr Falcone's successor as director of penal affairs at the Ministry of Justice and a possible Mafia target.

Mr Kenneth Clarke, Britain's home secretary and chairman of the meeting, conceded afterwards that intergovernmental action on immigration and police issues would continue even if the Maastricht Treaty was rejected.

Security at the Brussels headquarters of the council of ministers was tightened up for the meeting, which was held at the

meeting was seized on by the French government delegation, two days ahead of the French vote on the Maastricht accord.

Fears that organised crime might spread across open EC borders has been played up by French opponents of Maastricht, but in an EC presidency statement after the meeting, ministers welcomed the impulse that the Maastricht Treaty would give to closer co-operation on police and judicial matters.

Security at the Brussels headquarters of the council of ministers was tightened up for the meeting, which was held at the

request of Italian and French justice ministers following the assassinations of anti-Mafia judges Mr Giovanni Falcone and Mr Paolo Borsellino in Sicily.

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## French prison crisis deepens

By Alice Rawsthorn in Paris

THE crisis in French prisons deepened yesterday when the army was sent in to a number of jails and a policeman was injured as picketing prison officers tried to stop a squad of riot police from entering Baumettes prison near Marseilles.

Tension mounted during the day after an incident early in the morning when an escaped convict from Clairvaux high-security jail was shot dead by police. The man was one of seven inmates who broke out of Clairvaux last Friday in a shoot-out during which a warden was killed.

The Clairvaux shooting sparked the strike by prison officers which has wrought chaos in the French jail system this week.

Only 60 of France's 183 prisons were operating normally yesterday, despite the government's attempts to negotiate a settlement with warden who are demanding more staff and better security.

Riot police have been installed in a number of jails.

## NEWS IN BRIEF

### Ecuador threatens to withdraw from Opec

ECUADOR yesterday threatened to become the first member to leave the Organisation of Petroleum Exporting Countries cartel since its founding in 1960, Neil Buckley writes from Geneva.

The second-smallest producer in Opec, it has fallen out with the organisation over its desire to raise output and increase its revenues to help pay off its \$13bn (£7.3bn) debt.

Ecuador, which joined Opec in 1973, said it intended to withdraw at the cartel's next meeting in November.

Ecuador's statement was a second blow to the organisation, after Mr Gholamreza Aghazadeh, the Iranian oil minister, said Iran did not accept Opec's communiqué issued late on Thursday.

Opec's ministerial monitoring committee pledged to freeze total production at 24.2m b/d for the fourth quarter, although Kuwait was allowed to continue raising output as it rebuilt its oil industry after the Gulf war. Iran had been pressing for a cut in production, and said an opportunity had been missed to drive oil prices up to the target of \$21 a barrel for the Opec basket of crudes. Mr Aghazadeh said Iran would now adjust its production according to world demand, but did not intend to disrupt the oil market by substantially raising output, as had been rumoured.

### Polish PM backs minister

Ms Hanna Suchocka, the Polish prime minister, yesterday confirmed her full confidence in Mr Janusz Lewandowski, the privatisation minister, after opposition parties narrowly won a vote calling for his dismissal, writes Christopher Bobinski in Warsaw.

Opponents of Mr Lewandowski, who won by 189 votes to 174, failed to gain an absolute majority of the 460-seat lower house (Sejm) but were able to inflict the first technical defeat on the coalition government formed two months ago.

The attack was led by the right-wing nationalist KPN party, which is critical of Poland's tight money policies.

### NZ central bank optimistic

The New Zealand Reserve Bank, in its most optimistic economic forecast in years, has predicted rising growth in GDP, and higher employment and exports, Terry Hall reports from Wellington. In its six-monthly forecast, the bank increased its previous estimate of growth in gross domestic product from 2.5 per cent to 3 per cent for the years ending March 1993 and March 1994 and forecast an inflation rate of 2 per cent for the year to December. Inflation would fall to 1 per cent by the end of next year. The bank said export growth was strong.

### Ex-All Nippon chief guilty

Japan's Supreme Court yesterday upheld a guilty finding against a former president of All Nippon Airways in the first of a series of cases before the court relating to the Lockheed bribery scandal, which surfaced 16 years ago, Robert Thomson writes from Tokyo.

The court found that Mr Tokuji Wakasa, 77, still honorary chairman of ANA, guilty of receiving funds from Lockheed of the US in return for purchases of the company's aircraft, and for perjurying himself in the Japanese parliament.

### Roh quits S Korea ruling party

South Korean President Roh Tae-woo said yesterday he would quit the ruling party, yielding to a key opposition demand that he remain neutral in elections for his successor later this year, Reuter reports from Seoul.

Mr Roh also pledged to reorganise his cabinet to try to avert a political storm over an election fraud which has severely tainted the image of his government.

### Algerian rebels' conditions

The spokesman for the Algerian Islamic Salvation Front (FIS), Mr Rabah Kebir, who three weeks ago fled house arrest in Annaba and took refuge abroad, has reiterated his movement's willingness for "dialogue" with the Algerian authorities, writes Francis Ghiles. However, four conditions would have to be met.

All those arrested since the electoral process was suspended and the FIS banned last January, should be released and "arbitrary arrests" stopped. FIS municipal councillors elected in the June 1990 poll should be reinstated and all those arrested "compensated". The second round of the elections, whose first round last December 26 gave FIS candidates 48 per cent of the popular vote, must be allowed to proceed.

## Miyazawa backs use of public funds

By Robert Thomson in Tokyo

MR Kiichi Miyazawa, Japan's prime minister, yesterday insisted that public funds could be used to assist the troubled banking system, contradicting the Ministry of Finance which says public funds will not be used.

Meanwhile, the National Tax Administration Agency announced the relaxation of rules on the writing-off of bad

loans. Banks will be able to claim as a loss any loans on which payments have not been made for a year, down from two years.

Public support for ailing banks is a controversial issue, as previous suggestions that public funds would be used have prompted widespread complaints from ordinary Japanese, who argue that banks should take responsibility for their non-performing loans.

Mr Miyazawa's open support for the use of public funds contrasts sharply with the policy statements of Mr Tsutomu Hata, the finance minister, who has insisted that public funds will not be used in supporting the banking system.

The government has been reviewing tax breaks and loan disclosure regulations relating to banks, as yesterday's announcement by the tax agency shows. Mr Hata has

said a more detailed disclosure of non-performing loans will help to restore confidence in the banking system.

In spite of the minister's statements, the finance ministry is studying overseas cases of support for troubled financial institutions, but ministry officials hint that a detailed public support programme will only be announced if the health of the banking system worsens in coming months.

## Japanese money supply growth at low

By Charles Leadbeater in Tokyo

JAPAN'S money supply growth remained at record low levels in August, with the broad money supply expanding at an annual rate of just 0.3 per cent, according to figures published yesterday by the Bank of Japan.

Bank officials said the slight increase in the growth of M2 and certificates of deposit from the record low of 0.2 per cent

in July did not mark the start of an upturn in the money supply.

The bank recently cast doubt on the usefulness of the broad money supply as a measure of credit conditions. August's low growth suggests, however, that July's half-point cut in interest rates to 3.25 per cent has barely stimulated bank lending.

Officials expect M3 growth of less than 1 per cent in the third quarter as a whole, which implies growth of less than 0.5 per cent in September. Broad liquidity, another closely-watched broad monetary indicator, which includes deposits in the postal savings system, grew at a record low of 0.3 per cent in August, down from 3.5 per cent the month before. The slow growth of money supply, which was growing at an annual rate of 2.8 per cent in August last year, will fuel speculation that the bank may have to cut interest rates further to stimulate the economy.

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**Japanese money supply growth at low**

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# BBC to cut 1,250 more support jobs

By Raymond Snoddy

THE BBC is to cut 1,250 jobs from its central bureaucracy in a move that it said yesterday would save £150m over five years.

The latest job cuts follow an extensive review of all the BBC's support functions and will come in areas ranging from printing and systems development to market research and publicity.

It is the first time there have been such sweeping job losses among support staff. Most of the 1,250 jobs will go over the next 18 months. The aim is to reduce BBC overheads in advance of the full introduction of Producer Choice next April.

Under Producer Choice, BBC programme makers will have the right to buy the services they need from the outside market if it is more cost-effective.

The savings in support services are designed to ensure that internal resources are competitive with the outside market.

After a review of BBC radio resources, 17 studios will be closed and 20 outside broadcast vehicles withdrawn.

Sir Michael Checkland, director general of the BBC, said yesterday: "The two reviews

continue the clear policy of making the BBC more efficient, putting more money directly into programmes and making more BBC programmes outside the south-east of England."

Mr Tony Lannon, president of Bectu, the broadcasting union, said last night: "We are shocked by the scale of this. Most of the people going are doing real jobs - these are not bureaucrats."

The union said it would force the BBC to justify every single job to be lost. Bectu added that it seemed to be a case of assistant heads rolling.

The BBC said yesterday it would be the last large tranche of job losses. The future scale of employment in the corporation would be determined by how successful staff were in competing with the market.

About £20m of the £150m in savings will be needed to meet a shortfall that resulted from the 1991 licence-fee settlement, which was set below inflation.

The cuts will bring job losses in BBC radio and television between 1986 and the end of next year to 7,000. The total reduction has, however, been 6,000 because of 1,000 jobs created by new programme developments.

At the moment, the BBC has a staff of about 23,000.

## Paisley rejoins talks on Ulster

THE REV Ian Paisley, leader of Ulster's Democratic Unionists, returned to the inter-party talks in Belfast yesterday to discuss the Irish government's territorial claim over Northern Ireland.

Last night, however, it was considered unlikely that his party would participate in a historic plenary session due to take place at Dublin Castle on Monday.

Mr Paisley and Mr Peter Robinson, his deputy, withdrew from the talks last week because they felt the constitutional claim was not high enough on the strand two agenda, which deals with north-south relationships.

It is believed that the Ulster Unionist party will attend the Dublin meeting but it is unclear if Mr James Molyneux, the party leader, will be in the delegation.

### Shipyards jobs go

A FURTHER 250 workers at Cammell Laird shipyard on Merseyside are to lose their jobs, it was announced yesterday, reducing the workforce to just more than 700.

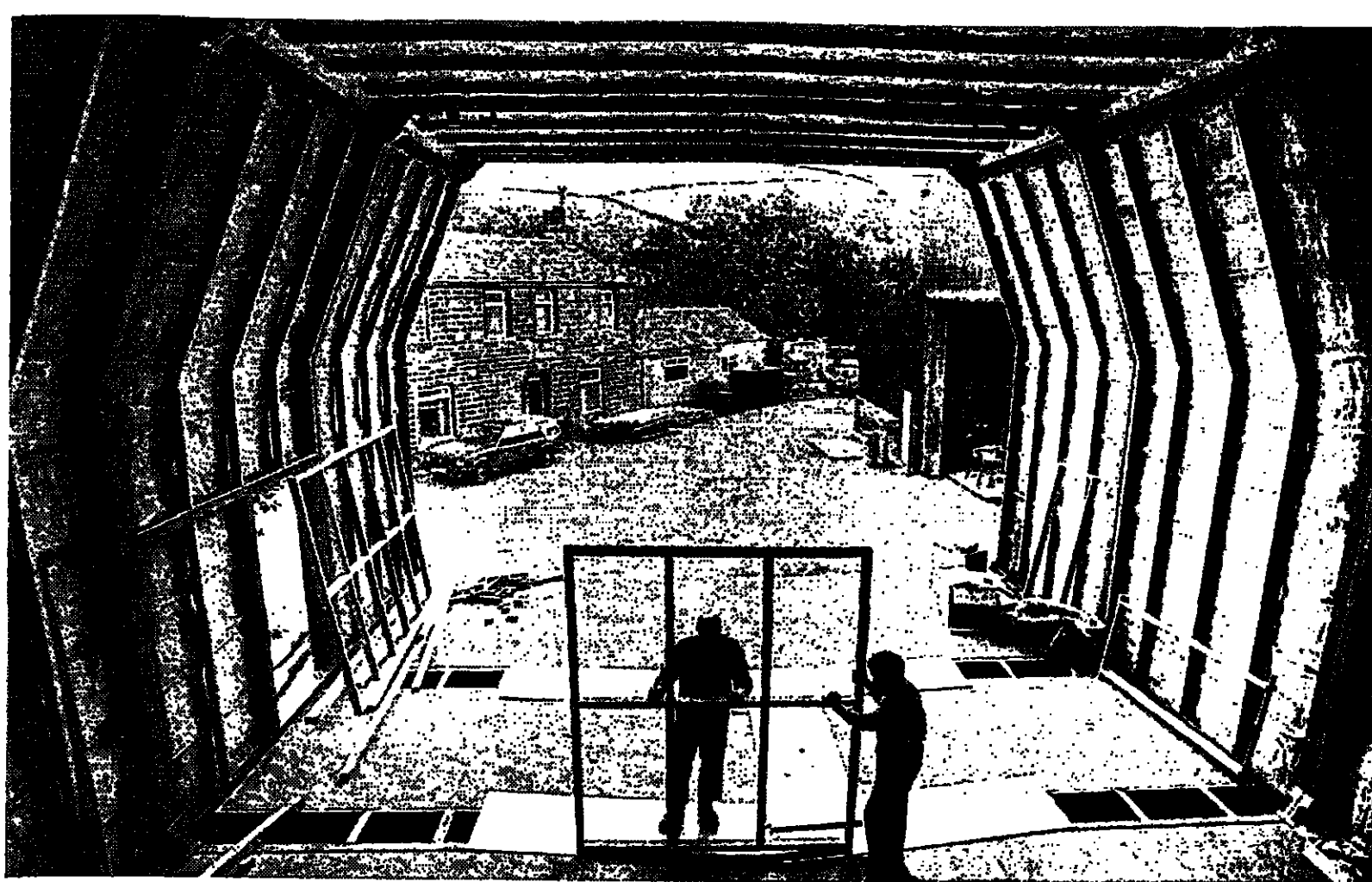
It is the latest stage in a rolling redundancy programme at the yard, which has shed 1,150 jobs since VSEL, the parent company, put the yard up for sale two years ago. It has attracted no buyers as yet.

### Working projects

A TOTAL of 66 projects, creating or safeguarding 6,319 jobs with a capital expenditure of £1bn, were attracted to north-east England and Cumbria in the 1991-92 financial year, according to the Northern Development Company annual report published yesterday.

### Airline offer

J. SAINSBURY, the retailer, yesterday announced a scheme with British Airways to give customers savings of up to 30 per cent on airline tickets.



This novel garage on skis sails for the Antarctic on October 1 to house cranes, bulldozers and other vehicles at the UK's most southerly research station, at Halley on the Brunt ice shelf.

The garage, made by VM Fabrications of Holmfirth, West Yorkshire, can be moved when necessary to overcome the accumulation of snow around the structure. It was designed by Bennett Associates to a concept detailed by the building section of the

British Antarctic Survey, and will be shipped on the survey's vessel RRS Bransfield.

Photograph by Tony Andrews

## Manx plan to compensate depositors

By Ian Hamilton Fazey, Northern Correspondent

THE ISLE of Man government is to introduce a £4.45m ex gratia compensation scheme for depositors in the Savings and Investment Bank, which collapsed 10 years ago with £42m of depositors' funds.

Mr Miles Walker, the island's chief minister, said yesterday the scheme would be put before Tynwald, the Manx parliament, next month if administrative arrangements could be agreed in time with the bank's liquidators. Payments - to a maximum of £5,000 - would be made to nearly 2,000 depositors early next year.

The move was attacked by Miss Gwendoline Lamb, who had £30,000 in the bank, as "morally shameful". She said the trial judge who in 1990 dismissed fraud charges against eight bank shareholders, officials or agents because of delays in bringing them, had suggested that £10m saved in court costs should be used to compensate depositors.

Mr Walker said the ex gratia payments would give them the same as they would have had under the UK's depositor protection scheme of 10 years ago. The Isle of Man, a self-governing Crown dependency, had no scheme at the time.

Government attempts to

make ex gratia payments in 1990 were thwarted when Mr David Cannan, who had been dismissed as finance minister after political differences with Mr Walker, persuaded Tynwald to wait until publication of the official report on the bank crash by Mr John Chadwick QC, an English barrister appointed by the Manx High Court.

The move was designed to force disclosure of the report, which is severely critical of the 1982 Manx government, but publication had to wait until associated trials in England were over last month. The report will come out on Tuesday. Much of its criticism of

government officials is already known because of court proceedings and a parallel report on supervisory standards by the Bank of England, published in 1990.

Those facts were not, however, available when depositors pursued a claim against the government to the Privy Council - the island's ultimate court of appeal - in 1989. The Privy Council ruled that the government had no duty of care to depositors, and the action failed.

Mr Cannan said yesterday: "Once the Chadwick report is out, it will be up to depositors to consider whether they should return to the Privy

Council and ask for another hearing on the grounds of new evidence, which they may well feel the report provides."

The crucial element of the report is likely to be that the Savings and Investment Bank was insolvent on several occasions during the last 16 months of its life, but that the island's treasury allowed it to carry on trading.

Attempts to bring the SIB's principals to trial and disclose the background to the collapse started only after a new Manx government, under Mr Walker, took office in 1987. Manx supervision has since been tightened and is now regarded as among the toughest.

## Munitions site to close

By David White, Defence Correspondent

A ROYAL Air Force munitions depot at Chilmark, Wiltshire, is to be closed as part of a reorganisation of the armed forces facilities for storage and maintaining armaments.

The measures are the last in a series of cuts in military support services, and involve responsibility for many RAF weapons being transferred to the other services.

The Chilmark site, which employs 250 civilians, is to close in 1995. Officials said compulsory redundancies would be kept to a minimum.

The Ministry of Defence has also decided to begin a redundancy programme at the naval depot of Trecyn, in south-west Wales.

A plan to bring forward the closure date from 1996 to 1995 was discarded, but the MoD now plans phased redundancies among the 500 staff.

## Papers leak 'could have damaged BCCI probe'

By John Mason

THE SERIOUS Fraud Office's investigation into the collapsed Bank of Credit and Commerce International could have been gravely damaged by the leaking of confidential documents to a suspect's solicitor, an Old Bailey jury heard yesterday.

Mr Chris Dickson, an SFO assistant director in overall charge of the BCCI inquiry, told the court evidence might have been destroyed, witnesses interfered with, and the SFO's reputation with the US Justice Department and the Bank of England damaged.

Mr Mark Braley, a former Coopers and Lybrand accountant seconded to the SFO

for the inquiry, and Mr Bernard Lynch, a freelance accountant, both deny conspiring to pervert the course of justice.

The prosecution alleges the two men plotted to supply confidential information from the inquiry to Mr Michael Barrett, a solicitor acting for Mr Syed Akbar, the former head of BCCI's Treasury division. Mr Barrett notified police of the plan.

Mr Akbar, now living in France, is under arrest and the subject of extradition proceedings in both the UK and the US.

Mr Dickson, a prosecution witness, said the documents would have disclosed the

extent of the SFO's knowledge and the lines of its inquiries.

"The fraud involving the Treasury division alone was a massive fraud," he said.

Possible targets of the SFO inquiry might have destroyed evidence and left the UK, he said.

Information-sharing with the US authorities could have been hampered and the Bank of England may have been concerned about the SFO's ability to look after sensitive documents.

Publication of the documents would also have hindered attempts to persuade people in the Middle East to co-operate with the SFO, he said. The trial continues.

## Council offers deal for pay freeze

By Catherine Milton, Labour Staff

A LOCAL authority is offering its town hall staff of nearly 1,400 a guarantee against compulsory redundancies if they accept a pay freeze next year.

Walsall Council is believed to be the first authority to have made such an offer. The move is surprising because Walsall is not one of the few local authorities to have opted out of the national bargaining machinery.

Local authority analysts said such moves by councils might become more frequent as the predicted tight public-sector pay round next financial year curbs budgets.

About 500 members of the Nalco public-sector union have rejected the offer. Nupe, another public-sector union, and the GMB and TGVW general unions have yet to respond.

Nalco said: "We are still at the very early stage of the budget-making process. We cannot be certain the guarantee could be delivered." If members gave up next year's increase, they would be outside national pay bargaining machinery and would find it difficult to catch up with staff at other local authorities.

Mr Mike Bird, council leader, said: "The council is facing financial problems and needs to make cuts of about 20 per cent. We are offering employees the chance to safeguard their jobs." If the deal is accepted it will save the council £3.5m of the £14m it needs to save.

## Ambulance inquiry sought

By Alan Pike, Social Affairs Correspondent

THE Commons health committee was urged by Nupe, the public-service union, yesterday to conduct an inquiry into the funding and management of the London Ambulance Service.

LAS, the biggest ambulance service in the country, has faced increasing criticism recently for delays in handling incoming telephone calls and attending some emergencies.

Nupe, which has been among the most vocal critics, accuses the service's management in a document circulated to London MPs yesterday of using the capital as "an experimental playing field" for the use of rapid-response paramedic units and a helicopter. They are, the union says, soaking up

resources and contributing to the inability of LAS to provide a strong basic service.

The Nupe report says the service's management is "obsessed with economic considerations". LAS was "slowly disintegrating into an expensive lame duck with the frantic 999 caller becoming its least important customer".

Mr David Blunkett, shadow health secretary, responded to the report yesterday by writing to Mrs Virginia Bottomley, the health secretary, asking her to set up an inquiry into LAS.

He said the document was a "damning indictment" of the present state of the service. It revealed "serious risks faced by Londoners because of the underfunding and inadequate staffing which is undermining the service".

The inquiry, Mr Blunkett

said, should include an examination of the impact of commercial and financial pressures on the service.

Mr Blunkett also wrote to Mrs Bottomley yesterday asking her to clarify the position in relation to the supervision of the West Midlands Regional Health Authority.

Sir Roy Griffiths, deputy chairman of the National Health Service board, has been asked by Mrs Bottomley to help to strengthen the authority's management after a critical district auditor's report into the handling of a contract.

Mr Blunkett said there appeared to be significant difficulties within the regional authority, and it was "in everyone's interest that the whole picture is in the public arena as quickly as possible".

## Unions still significant, report says

By David Goodhart, Labour Editor

SEVEN out of 10 British employers in companies with more than 200 employees still negotiate with trade unions, according to the latest Cranfield Price Waterhouse survey of European industrial relations.

The figure is surprisingly high, given the recent decline in union membership and influence. British trade unions have lost 3.9m members since

1979 and the proportion of employees in unions has fallen to about 40 per cent.

A preliminary report on the survey says the figure puts into perspective "the much vaunted predictions of the terminal decline, or even death, of the trade union movement (which) seem, to say the least, much exaggerated".

The UK level of seven out of 10 larger employers - covering both private and public sector - recognising unions is average for the 12 European coun-

tries covered by the survey. In many of the organisations, though, unions represent a relatively small proportion of staff, and in only four of the 12 countries - Denmark, Spain, Ireland and Portugal - do more than half of the organisations report union membership above 50 per cent.

The survey, which has been running for three years, is based on questionnaires returned by about 5,500 of the 36,000 organisations contacted. A majority of the respondent

organisations report no change in union influence. The overall trend is a small reduction in influence, but some countries, including Germany and Spain, report a marked increase.

Industrial relations remain relatively centralised, with policy decisions being made at HQ level in more than 40 per cent of organisations in all countries except France and the UK. A high degree of centralisation is especially evident in southern European countries.



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# Dancing amid the ruins

WE HAVE never seen anything like it before. Not the disorder in the currency markets, for that is an oft-told tale; but the spectacle of the stock market mounting a champagne celebration to mark the discomfiture of a Conservative government. In economic terms, this judgement may well prove apt.

The cost to the UK of trying to achieve monetary convergence had become unacceptably high, and its departure from the system is a potential economic liberation. But the political cost of the crisis, not just to Mr John Major but to the whole of the European community - including those still waiting for admission - is incalculable. The market reaction shows not just the devaluation of a group of currencies, but of the whole idea of an integrated Europe.

This is not a gain of any kind. There is no alternative vision on offer, nor any political leader strong enough to impose one even on his own electorate, let alone his partners.

Market disillusion with the project for economic union has been evident for many months. The first signs appeared even before the Maastricht treaty was signed. Bond yield differentials, which had been narrowing for some time in the hope of lasting economic convergence, started to widen just as the convergence plans were being officially ratified. Then came the collapse of the ECU bond market, which had been seen as the commercial precursor of monetary union. There were not enough interested investors to constitute a workable market. They were not impressed with visions of 1993, let alone 1997 (the hoped for Maastricht date for a single currency).

## Red meat

All the same, the currency markets remained calm. The world banking system has been so debilitated by bad judgement and bad lending that nearly all banks had forbidden their dealers to take speculative positions for more than an hour or two. Exchange markets responded not only to light central bank intervention, but even to veiled hints from those in authority. Only a few weeks ago, the idea that dealers might suddenly eat red meat, and turn to defy concerted intervention across Europe, looked far-fetched. British hopes that firm official words could control the financial tide look silly now, but must have seemed quite plausible then.

In the event it was not sterling or the lira, but the US dollar which fell first. This seemed at first to have official blessing, as the Administration took a public

position which was very near benign neglect. But the telling moment came when the combined central banks made a quite obviously half-hearted attempt to check the fall. For the first time in many months, dealers who kept an open position against their central banks during a trading day closed their books in the evening with useful profits, and at a time when banking profits were hard indeed to earn. The sharks were freed to hunt; the lira devaluation a week ago poured blood into the water.

## Popular doubts

European leaders would no doubt be blaming the whole crisis on the dealers, if they were not so busy blaming each other; but this would put cause and effect the wrong way round. What we have seen is not politicians struggling with markets, but markets responding to politics. The Danish vote, the strength of French popular doubts about Maastricht, and ever louder criticism of Mr Major's policies from his own back benches were all known before the markets ran out of control. A vicious meeting of Group of Seven officials deepened the general scepticism, and reports of a furious shouting match when Europe's finance ministers met in Bath set the timing.

By Monday, a French "Oui" to Maastricht may reset the direction of European development, though now on a long, two-speed route. This should restore some calm, but it will do nothing to calm fears of world depression, to meet the hopes of the ex-Communist countries of Europe, or to end the threat posed by revived populist nationalism.

It would be easy to urge the Group of Seven or the whole membership of the IMF, whose meeting are just about to begin, to set a new lead. Such an effort would be difficult in economically lean times, which always inspire national selfishness. While the US is in mid-campaign, and Anglo-German insults are being rained across the North Sea, it would be futile. Any attempted solution will have to wait on the election of new leaders to replace the tired and discredited men of the moment - a group which Mr John Major has at least temporarily joined.

The world leaders could, however, aim for an important second best. They should agree to refrain from competitive devaluation, and to tackle the Uruguay round of trade talks with a new sense of urgency. Such a pact should be achievable, even through clenched teeth, it accords with everyone's stated aims, and would counter a short term setback with some long term hope.

It could not have been a crueler week for Mr John Major. In the space of a few hours the foreign exchange markets brushed aside everything the prime minister has worked for during nearly two years in 10 Downing Street. He must now start again from scratch.

It is not an impossible task. Too many made the mistake five months ago of judging Mr Major's April general election victory as the precursor to permanent Conservative government. It would be equally wrong now to view the week at the hands of the currency speculators as the prelude to inevitable self-destruction. Politics is not that simple.

There is no doubt, though, that the next year will be gruelling. The events of this week have greatly weakened Mr Major's political authority and left his government without a coherent economic strategy. They have exposed and widened the fault lines in his party over Europe.

Mr Major's own reluctance yesterday to set any date for sterling's return to the exchange rate mechanism of the European Monetary System indicated that the personal pain of his defeat is clouding a more considered judgment of how he can rebuild his strategy.

The mood at Westminster yesterday did not reflect that reality. In the extraordinary silence of the despair which had gripped the Conservatives on Wednesday night, when sterling was withdrawn from the ERM, had been replaced by a surreal euphoria.

For many in a Tory party desperate to see an end to the recession, and one in which a streak of xenophobia is never far from the surface, breaking the link with the D-mark was a cathartic experience. Mr Norman Lamont, the embattled chancellor, caught the mood when he talked yesterday of running a "British economic policy". Ministers joined Tory MPs in predicting an early interest rate cut and in prophesying that a devalued pound would hasten recovery. And Britain would no longer be pushed around by the Germans.

In a strange way it is easy to see how, in the short term, life could be easier for Mr Major. The chancellor was at pains yesterday to stress that anti-inflation policy would remain the first priority. But the implication of his comments was that the ERM obligation to hold sterling at DM2.95 had been imposing too tight a squeeze.

A cabinet colleague said the government had recognised for some time that the tensions in the ERM caused by German unification meant that the British economy was "disinflation too fast". It had decided to stick with DM2.95 because of the long-term credibility that it would buy with financial markets. But now it had been forced off that rate, it could recognise a more realistic approach was possible.

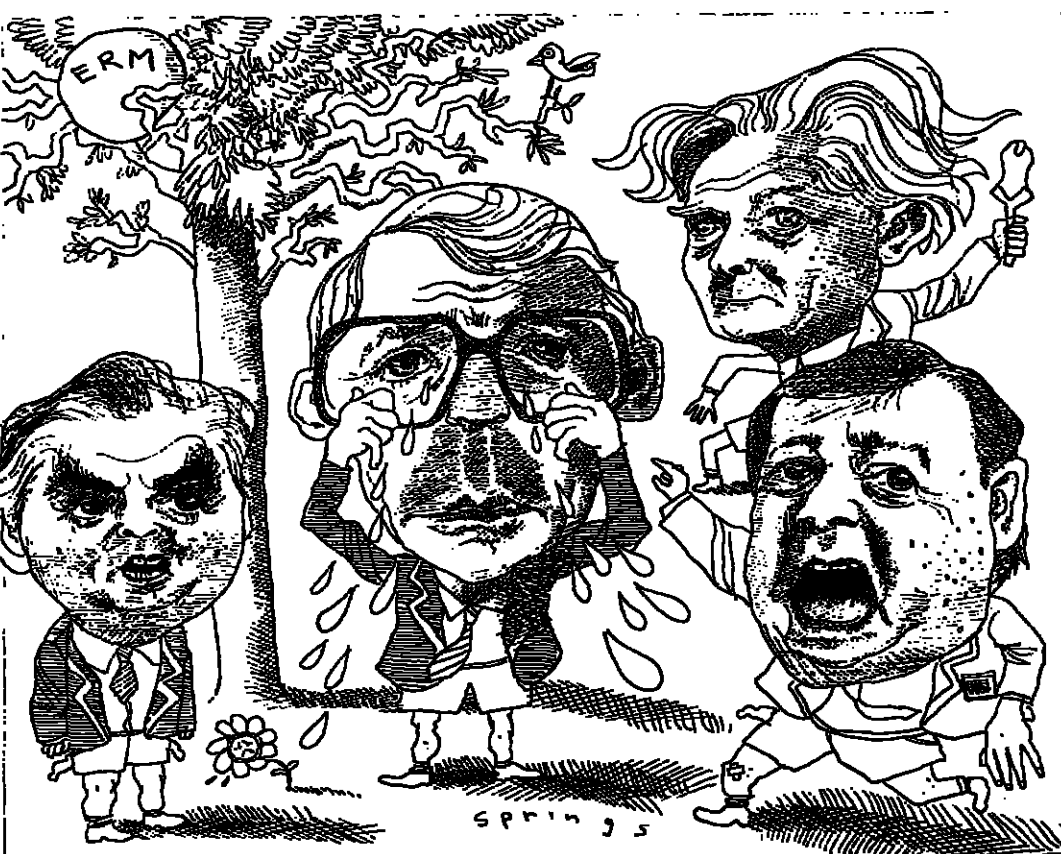
A more junior minister offered a 210-wager that interest rates would be below 10 per cent by the time Mr Major rises to address the Tory party conference on October 9. Added to a few harsh words about the Bundesbank, it would guarantee the prime minister a rapturous standing ovation.

The minister was scornful of the suggestion that the conference might wonder about past promises to the Tory faithful to keep the pound pegged to the D-mark: "Our capacity for collective amnesia is infinite."

An apparently ineffectual Labour

After a week of angst, John Major must start again from scratch. Philip Stephens takes the measure of the man

# Smiling through the tears



opposition tied by its own support for the policy of holding the pound at DM2.95 added to the strange mood of optimism.

But Mr Major cannot afford to relax. It may well be that life in the short term will be easier. It may be still easier if the French electorate votes tomorrow to reject the Maastricht treaty on European union. "That would solve a lot of problems," one of the prime minister's colleagues said this week.

But as he reflects this weekend on the traumas of Wednesday, the prime minister cannot be sanguine. Since the day in October 1990 when he persuaded the then Mrs Margaret Thatcher to take sterling into the ERM, he has invested as much of his own credibility in a single policy as any British politician in recent history.

For two years he has poured scorn on the long list of predecessors in Number 10 who promised to defend the pound and then failed. Only 10 days ago he had this to say of the then Mr Harold Wilson's decision to devalue sterling in 1967. "Did this lead to a sustained improvement in the UK's competitiveness?" he asked rhetorically. "It did not. A brief flurry only. Retail price inflation doubled over the following year and any improvement in competitiveness swiftly ended. No greater competitiveness and doubled inflation: what sort of bargain is that?"

Such phrases will come back to haunt him in coming months and years. Mr John Smith, the Labour leader, is promising a litany of them during what will be a bruising debate on the economy in the House of Commons next Thursday.

But there is more at stake than personal or political pride. Mr Major justly has the reputation of being a pragmatist. He is fond of telling people that he is neither an intellectual nor a philosopher.

He is steady yet spectacular rise through the ranks of the Tory party during the 1980s owed much to his shrewd determination to be branded neither a Thatcherite nor a Wet - but to seen by his peers as both. It is those traits which have brought the wounding comparisons this week with Mr Wilson, the arch-pragmatist of post-war British politics.

But the prime minister's approach to inflation is different. His repeated assertions that Britain's poor inflation performance is at the root of the nation's economic decline represent conviction rather than convenience.

He sees inflation as a moral as well as a political issue, a phenomenon that erodes the social fabric of society and drains its economic strength. Thus last week he quoted approvingly from Keynes that:

"There is no subtler, nor surer means of overturning the existing basis of society than to debase the currency."

It was from that perspective that over nine difficult months as chancellor in 1990 he persuaded Mrs Margaret Thatcher to put sterling in the ERM. When he replaced her in 10 Downing Street a fixed parity for sterling against the D-mark was confirmed as the fast-track to the Holy Grail of stable prices.

Barely two months ago Mr Major was wondering aloud at cocktail parties how long it would take before sterling joined the D-mark in Europe's hard-currency club. It sounded fanciful but he meant it. Now the pound has been bracketed with the lira and the peseta. He must add another two years at least to whatever the timescale - a decade or so - he had in mind.

It was not just the prime minister's economic policy that lay in ruins on Wednesday evening. His second ambition when he got the job was to rebuild from the wreckage left by his predecessor a consensus in the Tory party over Britain's place in Europe. He is not a federalist and never will be. But he was and is convinced that Britain could not risk being stranded on the fringes of the European Community. Just as Mr Major wanted the pound to be spoken off in the same breath as the D-mark rather than the peseta so, too, was he convinced

that Britain had to be in Europe's first division.

He painstakingly rebuilt the bridges with Chancellor Helmut Kohl that had been so merrily burnt by his predecessor. In literally scores of meetings with groups of sceptical Tory backbench MPs he persuaded them that the government had to live with Europe rather than revile it. Mrs Thatcher was marginalised as the new prime minister declared that the Maastricht deal - albeit with its opt-out clauses - represented "game, set and match" for his brand of pragmatic Europeanism.

Ironically the seal was to be set on that policy during the current presidency of the Community, with December's Edinburgh summit confirming with great fanfare Britain's return to what Mr Major is fond of calling the "heart of Europe".

Instead it is the Euro-sceptics who now have the upper hand. The swathe of uncommitted MPs in the Tory party at Westminster are beginning to wonder if the irreconcilables - the small band who have always opposed the ERM and Maastricht - were right in blaming sterling's link to the D-mark for the economic pain of the past two years.

Mr Major's thinly-veiled attacks on Germany and Mr Lamont's appeal to the spurious notion that there can be something akin to a uniquely British economic strategy have not helped his own cause.

He questioned yesterday the basic structure of the ERM. But the D-mark's domination of the system is nothing new. Mr Major, a former chancellor, cannot claim to have believed the Bundesbank would be anything but inflexible about its domestic anti-inflation strategy.

Mr Major's present stance will help reassure the Euro-sceptics. And perhaps, after such a shattering week, it is not surprising that Mr Major should want nothing more than a period of peace and quiet at Westminster.

But over the coming months he will have to rebuild a European policy which consists of more than blaming the Germans. He presides over a pro-European cabinet.

The senior ministers he gathered around him on Wednesday to share in the decision to leave the ERM - Mr Douglas Hurd, Mr Michael Heseltine and Mr Kenneth Clarke - still see Britain's future at the heart rather than the periphery over Europe. And, as Mr Heseltine signalled yesterday, they do not believe there is a long-term future for the pound outside the ERM once the single European market is in place.

Nor do they doubt that the prime minister still shares his ambition of stable prices and partnership rather than conflict with Germany and France. During the crisis hours on Wednesday it was Mr Major who demanded confirmation and reconfirmation from the Treasury that the government had fulfilled all its ERM obligations before he took the decision to withdraw the pound.

His colleagues expect Mr Major's understandable angst to be replaced in coming months with a return to the pragmatism which persuaded him to join the ERM and his party to jettison the anti-Europeanism into which Mrs Thatcher had led it.

It will be a long and painful journey, punctuated by further outbursts of internecine strife in the Tory party.

But Mr Major has invested too much in his anti-inflation strategy and in the ERM to break loose now; and too much in Europe to declare that he too is a Euro-sceptic.

# Fear and loathing on the loose

Judy Dempsey on the task facing UN troops in Baranja, eastern Croatia

War seems a long way off from the lush, sun-drenched cornfields of Slavonia, eastern Croatia. Yet this time last year, the Yugoslav army and Serb forces were fighting against Croat soldiers in these meadows from where mortar and artillery rockets were launched. Entire villages and towns were razed.

Since April, UN troops deployed in three sectors of Croatia have steadily overseen the withdrawal of the Yugoslav army and the disarming of local Serb police forces, a process which is continuing. Despite these troops, the UN's protected area in "sector east", eastern Croatia, is lapsing into lawlessness.

The Serbs, who seized this and other parts of Croatia last year, are determined to hold onto their gains. Mr Borujanovic, president of the council of Bell Manistir, the main town in the Baranja, which comprises the entire northern part of sector east, said the region would never again become part of Croatia.

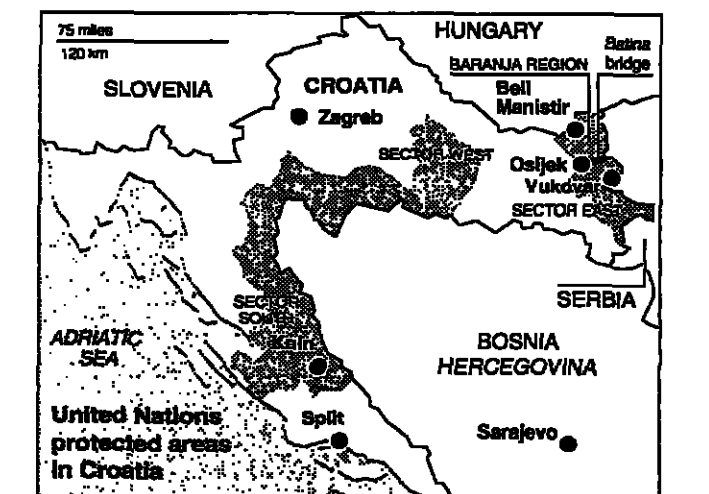
"This is our territory. This is part of the Serbian republic of Krajina," he said. He called the Belgian UN battalion, deployed in this part of sector east, "fascists".

Mr Zivanovic says Serb leaders want to set up their own state in the Baranja, even though it is Croatian territory. "Those Belgians are preventing us from doing this," he said. He added that the local Serb authorities are applying laws passed in September 1991 by the self-proclaimed Serbian republic of Krajina, which includes the Baranja. As part of the creation of a greater Serbia, Serbian President Slobodan Milosevic had hoped to link the Krajina with Serbia proper.

The recent upheavals have altered the ethnic composition of the Baranja. Forty-two per cent of Baranja's 54,000-strong population was Croat and 25 per cent was Serb. During the fighting, 25,000 Croats and Hungarians fled the region. Since the war, 10,000 Serb refugees



Tudjman: demands that UN allow refugees to return



have been resettled there. Today, Serbs make up more than 70 per cent of the population.

The determination of the Serbs to hold onto the Baranja also accounts for Mr Zivanovic's insistence that it is "ridiculous" to expect the Serbs to give up all their weapons under the UN peace plan for Croatia. "We fear an attack from Croatia. Croatia has already expelled many Serbs from that republic. Serbs who remain there have no rights whatsoever," he said.

To compound matters, Croatian President Franjo Tudjman is demanding that, on September 30, the UN start allowing Croat refugees back to the Baranja. "The conditions for their return, which include their safety, do not yet exist," said Ms Blandina Francis Negga, the UN's civilian affairs co-ordinator in sector east.

Another UN official said Mr Tudjman would try to send back "refugees" who were 6 ft tall, young, fit, and well-trained. "We would have a war on our hands," he said. "We are in a no-win situation. If we do not allow the Croat refugees back to the Baranja, we will be accused of exacerbating the refugee

crisis in Croatia and facilitating ethnic cleansing of the Baranja."

Another senior UN military official added: "We are hated by the Croats because they accuse us of consolidating Serbian gains in Croatia. We are hated by the Serbs because they accuse us of preventing them from setting up their own state in the Baranja." The UN's mandate does not permit state structures being established in sector east. "What we can do is report cases of intimidation against the ethnic communities to the local authorities," said Ms Negga.

UN officials say that killings, aimed at forcing out the non-Serb population, are frequent, with between 10 and 15 incidents taking place each day. Since they arrived last April, they know of 40 ethnic murders, and 400 terrorist acts against the non-Serb population.

"We have documented proof, including identification by victims, that members of the (Serb) regional police forces have taken part in terrorist acts," a UN military official said. Mr Zivanovic said he had heard about some of these cases, but denied any complicity by the regional police. Colonel Dragan Novakovic, chief of Baranja's regional police, also denied any involvement by the police in terrorism, or any organised policy of intimidation of non-Serbs.

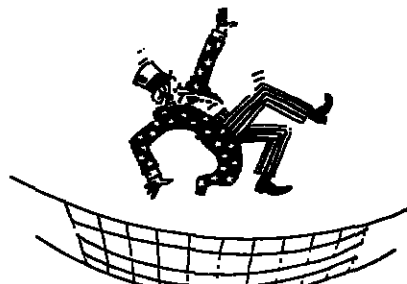
But Croat and Hungarian homes in the Baranja are easily identifiable (they have a white cloth or a red mark put on their houses by the authorities). Many live in fear. "My friend was butchered last week," said a 65-year-old Croat peasant woman. "They killed two of my friends in front of my house."

The UN know about this, and other cases. "Can we place a patrol outside every Croat and Hungarian house?" asked a UN military official. "We have not got the resources."

He turned to the problems of neighbouring Bosnia-Herzegovina. "Can you imagine the UN trying to set up protected areas there given our problems here? The Baranja is just a tiny, tiny, microcosm of Bosnia. This is a step-by-step process of restoring stability here, where the desire for revenge runs deep. It will take years before Serbs and Croats can live together again."

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# Rising tide of disillusion

The road from Maastricht has been paved with miscalculation, writes David Marsh

The politicians who launched Europe towards political and monetary union last December knew they were treading a narrow pathway. They did not imagine, however, how quickly the waves of confusion and hubris would be lapping around their ankles.

The road from Maastricht has been paved with miscalculation. Even if the French vote No tomorrow, the journey towards European integration will not come to an end. Yet the route will become more perilous - and the number of countries determined to carry on may diminish.

From the beginning, uncertainty has been inherent in the treaty, reflecting the path of a reluctantly-worried compromise to satisfy the demands of the document's 12 signatories. Would Maastricht

Maastricht trail looked a lot less stony. At the EC summit in the Dutch border town, Mr Helmut Kohl, the German chancellor, projected fulsome confidence. He agreed a small private wager - six bottles of wine from the Rhineland-Palatinate village of Gimmeldingen against a crate of British vintage - that the UK would join economic and monetary union (EMU) by the Maastricht timetable date of 1997 or 1999.

The German chancellor has again been doing his best to spread bonhomie, claiming that Mr John Major, the UK prime minister, told him that Britain would "soon" rejoin the exchange rate mechanism. In fact, the turmoil in the European Monetary System has now sharply lengthened the odds against EMU being established - and relegated to the realms of dreams the notion that Britain could take part in it.

Everywhere, governments appear to have underestimated the degree of deflation which the tough Maastricht EMU targets, together with high German interest rates, would impose on European economies. The financial markets' belief that these deflationary pressures would prove politi-

cally unsustainable in the weaker currency countries has been the main factor behind the ERM unrest.

Other misjudgments have been in the political sphere. Mr Mitterrand's referendum gamble may be tomorrow night have blown up in his face. Compared with the president's expectation three months ago of a sizeable Yes majority, the best he can now hope for is a small margin in favour. That would salvage the treaty. But, in a country which, with Germany, has been the motor of European integration, such a grudging outcome would leave grave doubts about whether the Community can maintain the drive forward.

The Danish government, presiding over an electorate habitually sceptical about further integration, took another form of risk by holding an early referendum in June. It chose not to wait for other countries to embark first on the ratification trail. The Danish No was spurred



by a mixture of motives. Top of the list seems to have been ordinary people's concerns about Community interference in their lives - fears which are very similar to the worries

expressed by many in Britain. Mr Uffe Ellemann-Jensen, the pro-Maastricht Danish foreign minister spent the summer pondering why the Danes (by a small margin) turned the

treaty down. He believes he has now come up with an answer. "The whole idea of European co-operation has simply become too far removed from the daily lives of our peo-

ple. The Danes showed they were sick and tired of reading in the newspapers or hearing on the radio every morning that new things had been decided over their heads."

Since Maastricht needs to be ratified by all 12 members, the Danish No ensures that the treaty cannot become operational until next year, at least. Even if it surmounts ratification hurdles elsewhere, the treaty will require the blessing of another Danish referendum next spring.

Still more important than the legal quagmire it created, the Danish rejection had a catalytic effect in spreading doubts elsewhere. Crucially, it suddenly became respectable in Germany for opponents of EMU to make public their qualms about abandoning the D-Mark. The agonising over whether the planned new European currency will be as stable as the D-Mark is likely to be given a fresh public airing when parliamentary ratification starts in Germany later this autumn.

Attempts to re-establish the ERM on a sound footing are unlikely to be successful while the present strains and recriminations persist. For some German critics, the writing is on

the wall. Mr Hans Barbier, the economics editor of the conservative *Frankfurter Allgemeine Zeitung*, yesterday signed off a trenchant front-page article by declaring that the European Monetary System was worthless. "One should not be sad if [such systems] fall apart."

With weaker currencies, led by sterling and the lira, now clearly detached from the ERM's D-Mark-based "hard core", the group of countries which could participate in EMU has been reduced to no more than six: Germany, France, the Benelux countries and, possibly, Denmark. If France votes No, even the prospect of a slimmed-down EMU grouped around a Franco-German nucleus would vanish.

One warning signal for the future has been the resurgence of national antipathies. This week's articles in the British

tabloid press about "the Bundesbank bullies" have been just one sign. Many Germans have been irritated by the fears of German dominance which have played a large role - in both the Yes and No camps - in the French referendum campaign. Complaining about the anti-German overtones in France, Mr Rudolf Augstein, the publisher of Germany's most important news magazine *Der Spiegel*, wrote, perhaps somewhat drastically, this week: "What worries us most is the fact that the oft-proclaimed Franco-German friendship in practice hardly exists."

If French voters - for whatever reason - ditch Maastricht tomorrow, the Community will not suddenly lose its *raison d'être*. In a speech in London on September 7, Mr Major spelled out seven separate items on the Community's agenda which would still require active attention even if the Maastricht process failed: the single market, the EC budget, enlargement, links with eastern Europe, the Gatt negotiations, and so on. If Maastricht is buried, the Community would none the less need to make a giant effort to recover from the shock. According to one favourite EC maxim, the Community is like a bicycle: the only way it can remain steady is by moving forwards. This week, everyone's fear of toppling has suddenly intensified.

## One warning signal has been the rise of national antipathies

turn the European Community into an intolerable "super-state", as Lady Thatcher, the former UK prime minister, has claimed, or mark the first step away from EC centralisation, as stated by Mr John Major, her successor?

Would the treaty repeat drawbacks in the 1987 Single European Act, which established the way to a border-free "single market", as President François Mitterrand declared on French television a fortnight ago? Or would it exacerbate these deficiencies, to the detriment of millions of Gallic workers and farmers, as his opponents in the French referendum campaign claim? Would it extend German monetary hegemony across Europe, as many French voters fear - or would it allow the Paris government to get its hands on the D-Mark, as many Germans (including the officials of the Bundesbank) believe?

Confronted with these contradictions, as well as the Community's ineffectiveness in dealing with challenges ranging from immigration to the conflict in the former Yugoslavia, voters seem puzzled and disillusioned. In the Netherlands - traditionally in favour of a federal Europe - 44 per cent of voters are undecided about Maastricht, while more than half do not understand the treaty, according to two recent opinion polls.

Just nine months ago, the

Next week Mr John Major will have to defend himself before the House of Commons against the charge of leading his government and his country into the ERM disaster. This is, after all, the man who said, less than two weeks ago, that "changes in economic and monetary arrangements... must work with the grain of the market and not against it. This is of course what the ERM does." After what markets have done, what is the prime minister's answer? "Ideally, something like this:

"I must apologise to honourable members of this House. I was wrong. The government was wrong. But so, I would remind this House, was the Opposition."

"Not having suffered the disadvantages of a university education in economics, I have little excuse. People with first class degrees and sufficient confidence in their country found attractive the simplifications and the deflation that lay behind our ERM policy. I cannot plead this justification."

"Why deflation? How else can one describe the view that the best possible monetary target for the UK was German broad money and the best central bank the Bundesbank?"

## Martin Wolf on what John Major should tell the House Plan for staying afloat

"Why simplifications? Over the past twenty years, governments first received plaudits for trying to get the exchange rate down, whatever its effects on the money supply; then for deciding to control the money supply, whatever its effects on the exchange rate; and finally, for keeping the exchange rate up, whatever its effects on the money supply. This drunken walk from one over-simplified nostrum to the next has perfectly matched the behaviour of the economy."

"The ERM policy has, in the end, damaged our credibility and our relations with Germany. The system is, in fact, half-baked: too rigid to accommodate the pressures of the markets and too flexible to resist them. The logical policies are either a single currency or a floating exchange rate. The Germans will not soon grant the former, at least to the UK, so the UK must, for the moment, choose the latter."

"A floating pound provides an

opportunity, but also a danger. I remain convinced that this country should aim for steady, non-inflationary growth. Monetary policy will not deliver the growth. It is our old supply-side policies - competition, privatisation and low taxation - plus our new supply-side policies - more spending on economically productive infrastructure and a radical overhaul of education and training for the over-sixteens - that will deliver growth in the longer term. But monetary policy can provide support."

"How, the House may wonder, is the government going to pull off this miracle? It is not. The Bank of England is. Daily operation of monetary policy is to be the Bank's responsibility. A bill to grant it operating independence and reconstitute the Bank's court of directors will be before the House shortly."

"You must all wonder how the Bank of England is going to manage its task. That, I am glad to say, will not be the government's problem. But

I imagine that like the Bundesbank it will look at broad money - rather a reliable indicator ever since we stopped targeting it - the exchange rate and long term interest rates. "The Bank will still be accountable. First, the government will be able to override its decisions. But it will have to do so publicly. Secondly, the Governor will have to explain the Bank's policies to the House. I wish her every success."

"Many of my honourable friends hope for yet another dash for growth, with interest rates down to 5 per cent tomorrow. That is neither what we intend nor what the country needs. What it needs is an export-led recovery and continued control over inflation, so building on the one success of the last two years. The latter is what the Bank will be expected to deliver. Nevertheless, my honourable friends will be pleased to know that the government will cut base rate by another two percentage points. We intend to take advantage of our last



Mr Bill Clinton might be the next president of the US, but with more than six weeks to go that is all that can be said. His principal asset, I was told over and over again in Los Angeles and Washington this week, is that he is not Mr George Bush. He is young; the president is not. He is something new; Mr Bush is all too familiar. He has a plan for the country's salvation; the incumbent is blamed by many voters for setting the US economy on the road to perdition. Yet there is no guarantee that Mr Clinton will win, in spite of a lead that the conventional wisdom declares to be unassailable.

The Democratic candidate's problem is that he has the appearance of a striver who is not quite 100 per cent gilded. This is partly due to the well-known accusation that he is an adulterer, a draft-dodger, and a man who, when a student, puffed on a joint or two. In some eyes these are peccadilloes but, in his anxiety to please, he has made the worst of them. His executive explanations tumble over themselves. The danger for him is that one day he may trip himself up.

He is attractive when addressing a crowd or moving within it to shake hands and sign his autograph. He appears to enjoy pressing the flesh. To my eye, he spoils it by a manner that is a touch over-studied. The gestures, the hair-do, the

## Importance of not being George

Joe Rogaly pinpoints Bill Clinton's greatest attraction to American voters

smile, could have been designed to revive the image of Robert Kennedy. If so, the comparison is to the disadvantage of the governor of Arkansas. Where the former had soul, the latter has calculation. This is not to say that Mr Clinton is more untrustworthy than any other politician. In the eye of heaven, he may be judged to be possessed of greater political integrity than President Bush. That is, however, beside the point. What counts is that the challenger is vulnerable to attacks on his character.

The intensity of such attacks, orchestrated no doubt by Mr James Baker, is likely to increase. Nothing else that the president has tried seems to have worked. The appeal to "family values" - in reality a sign of despair at the changes that have taken place in society since the 1960s - is politically lucrative among the older generation, particularly in the southern states, but so elsewhere. The attempt to copy the subtlety of the Conservative election campaign in Britain earlier this year - "sure we made you poorer but the Democrats will make you poorer still" - has not so far been effective.

In short, Mr Bush is still well behind in the race in virtually every state. Former president Richard

Nixon, now enjoying an established reputation for shrewd political analysis, has advised the Republicans to forget about California, where Mr Clinton seems set to win. That would give him 54 of the 270 electoral college votes necessary to put him in the White House. This week, the challenger was back on the west coast again, a relaxed candidate nailing down his huge lead.

His highly professional team placed him in south-central Los Angeles, where burnt-out reminders of this year's riots can still be seen.

workfare to the poor. That means that, after a while, social security ends if the recipient does not sign up for a job, training or community service. The students, hand-picked by advance teams, cheered and waved their pom-poms and banners.

On to a Mexican independence day rally in the Hispanic area of Baldwin Park. With practised passion, Mr Clinton preached his given-name-at-hand interventionism. Mrs Hillary Clinton, splendid in pale blue, favoured the sun-drenched audience with her best

Clinton is offering what serious parties of the left must today - an activist programme, dressed in free market clothing

At an "employment preparation center" (vocational training school), he talked of federally subsidised community development banks and federal matching funds for the poor who save for a house or an education. He promised enterprise zones, and the sharpening of a law (currently most honoured in the breach) that obliges banks to invest specified sums in local areas.

There is courage in parts of this standard package: he is offering

Princess Diana smile; the crowd, perhaps aware of tendentious Republican attacks upon her, responded with loud cheers. Mr Clinton talked again of helping the market to help people make the best of their opportunities. In this part of town his language was a shade more conservative than it had been earlier in the morning.

Watching, my mind raced back to 1980, when Hubert Humphrey lost to Mr Nixon by a hair's breadth. Mr

Humphrey was a man of substance, a New Dealer, a socialist by today's definitions. He was, however, genuine. I heard him make the same speech at brief stops in 48 states; he surely believed his own words every time. The Humphrey promise was all about government handouts, with nothing that I can recall on enterprise zones, or workfare. He offered to perpetuate President Lyndon Johnson's Great Society.

Mr Clinton is so far to the right of Mr Humphrey - and, for that matter, of Mr Robert Kennedy - that he could be running as a Republican. He is offering what all serious parties of the left must put forward today. This is an activist government programme, dressed in free market clothing. It is hard to combine the two streams of thought into something that appears

unmoderated. President Bush is trying to find a vulnerable point: he has begun to characterise the Clinton programme as "social engineering" of the kind that led to wholesale nationalisation in western Europe.

This is sheer electoral hyperbole. By European standards Mr Clinton's policies are fairly centrist, some of them tending towards the centre-right. On non-economic matters he is no lefty; he is a cruelly



Challenger and wife: Over-studied, undermined by character issues

proven supporter of capital punishment. Yet, as president, he would constitute a full-stop to the anti-government years that began with the election of President Reagan. He is no free-market minimalist. The Democratic Congress would be likely to support his bills where it opposed his immediate predecessors. He would, as Americans say, make a difference.

Not too much should be made of this. The arithmetic of Mr Clinton's

proposals, which shifts spending around and increases taxes on the rich, is not wholly convincing to anyone who regards reduction of the budget deficit as a priority. Mr Bush's failing is that he does not appear to understand the need for domestic renovation; Mr Clinton's that his principal motivation appears to be to get elected. For that to happen, American voters must trust him all the way to November 3. It could be tricky.

## High money changing charges reflect badly on European banks

From Mr François P Jeanjean. Sir, Could I add a few comments related to your excellent editorial concerning the British clearing banks charges on current accounts ("A PR coup for the banks", September 2).

After retiring from a career in international finance I decided to bum in Europe with my son on a budget of \$40 a day each.

This called for an examination of all expenses and, in my view, the bank charges for changing money was one of the two worst rackets in Europe (the second is the inability to obtain free tap water).

Canadian chartered banks are not philanthropic organisations, yet the spread between buying and selling for major currencies is about 3 per cent for small amounts; generally speaking, there are no extra charges. In England and in most of Europe the spread is about 10 per cent.

In addition, most European banks, including British ones,

charge a commission which can vary from 2 per cent to 6 per cent and some charge offices, especially in Amsterdam but also one in Britain's Victoria station, have an 8 per cent commission.

To top it all some banks will accept Visa traveller cheques, but will have another fee to cash an American Express traveller cheque and vice versa. Not a bad business to be in.

This is the time when I appreciated my credit card and the ability to withdraw money in any currency at a fair price, but I cannot help but feel that the banks are not improving their reputation with all the young travellers who had no choice but to use their services.

This is the case for a common European currency, if there ever is one. François P Jeanjean, 447 Crestview Road, Ottawa, Ontario, K1H 5G7 Canada

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL  
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

## Bundesbank only advanced day when UK bit devaluation bullet

From Mr Neil Jamieson.

Sir, The whingeing about the Bundesbank and its president, Mr Helmut Schlesinger, has been taken to excess. Britain's economic woes are of its own making. The government's monolithic handling of economic policy, while worthy in its goals, has been based on false parameters, not least the

D-Mark rate at which sterling entered the ERM.

The Bundesbank and Mr Schlesinger deserve our thanks. The Bundesbank lowered interest rates. If I remember correctly, that is what the "economic scribbles" and others in Britain had been pleading the Bank to do for months. Mr Schlesinger's statements

merely advanced the day when the government had to bite the "sterling-devaluation" bullet. He has helped to stop the current bout of cancer which, had it continued, may have proved terminal for both the government and British industry.

Neil Jamieson, Kaiserstrasse 28, 5300 Bonn 1, Germany

## Hopping mad, but taking heart at Boots

From Ms S M Sellier.

Sir, Gordon Roddicks's slur - "You have only to look at the customers in Boots to know that they are not the same as ours" - made me hopping mad ("Body Shop shares fall 40 per cent on profit warning", September 17). The two-headed monsters currently trawling round Boots for the

things you can't buy at the Body Shop (prescriptions and all proprietary medicines leap to mind) can now take heart and pick up Boots' own-brand "green" cosmetics with a clear conscience.

If falling profit predictions encourage the Roddicks to look for ways to make their chain attractive to those unter-

menschen, could I make a couple of suggestions? A few more polite, trained staff, particularly at the tills, would make paying for the goods less of an assault course. And turn off that muzak! S M Sellier, 137 Wood Street, Barnet, Herts EN5 4BX

## Cause and effect of the recession

From Mr Colin Clark.

Sir, I am starting a new business, with my own money. Nothing remarkable about that except that I cannot get anyone to take it.

Lloyds, with whom I have banked for 30 years, flatly refuse to let me have a credit card facility because mail order is involved. Midland, where I subsequently opened a business account, cannot provide me with documentation to operate that account. The fulfilment house failed to turn up at the meeting arranged to finalise my arrangements with it and has not been heard of since.

The magazine in which I wanted to advertise shows no desire to take the advertisement. A personal introduction from

## Big is not necessarily beautiful in auditing

From Mr Keith Sealey. Sir, I read with bafflement the Accountancy Column's coverage of the Land Travel collapse (September 3).

One of the "warning signs" that Land Travel was about to collapse was apparently the fact that "Price Waterhouse - one of the largest UK firms - resigned last year as auditor, to be replaced by a local firm".

Such a comment indicates a misplaced bias and a total ignorance of the accountancy needs of businesses and the high quality work being carried out by many "local" firms

a senior colleague proves insufficient reason for the insurance broker to do anything in response to my calls.

When these people announce their no doubt abysmal results they will blame "the recession". My recent experience suggests the recession is the effect, incompetence the cause. Colin P Clark, The Clark Trading Company, 17 Southbrook Road, Les, London SE12 8LH

to address those needs. Against the backdrop of numerous spectacular collapses in recent years and the financial shambles at Lloyds, the majority of which were audited by the big 6 firms or nearly big 6, perhaps you could explain the basis on which you can infer that if a company changes its auditors from one of the big 6 it is one of the "warning signs".

Notwithstanding the misplaced bias of organisations such as yours, my firm is attracting substantial amounts of audit work from the big 6. The companies include places which are looking for better customer care, value for money, and a more hands on and pro-active approach which will make them better able to survive the present grim trading conditions.

Big 6 is far from being beautiful! Keith Sealey, managing partner, Latham Crossley & Davis, Summer House, St Thomas's Road, Chorley PR7 1HP







## ECONOMIC DIARY

**TODAY:** Mr Norman Lamont, chancellor of the exchequer, attends G7 finance ministers meeting in Washington before IMF meeting (until Tuesday). World Economic Development Congress in Washington.

**TOMORROW:** France holds referendum on ratification of the Maastricht treaty on European union. G10 finance ministers meeting.

**MONDAY:** International Atomic Energy Agency general conference in Vienna (until September 25). World Energy Congress begins in Madrid (until September 25).

**TUESDAY:** Balance of payments current account and overseas trade figures (August). US housing starts, building permits (August).

**WEDNESDAY:** Building societies monthly figures (August). Cross-border acquisitions and mergers (second quarter). New construction orders (July-provisional). Gross domestic product (second quarter) (including analyses of expenditure, income and output components). Federal Reserve releases "Beige Book" outlining US economic trends.

**THURSDAY:** Institutional investment (second quarter). New earnings survey 1992 Part A: streamlined and summary analyses; description of the survey. Energy trends (July). US jobless claims; real gross domestic product (final-second quarter); import/export price indices (August). Recall of Parliament to debate economy. Summit of CIS heads of state and government in Bishkek, Kyrgyzstan.

**FRIDAY:** US durable goods (August).

## FT-ACTUARIES SHARE INDICES

The Financial Times Ltd 1992. Compiled by the Financial Times Ltd in conjunction with the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS		Friday September 18 1992										Thu Sep 17		Wed Sep 16		Tue Sep 15		Year Ago		Highs and Low Index																																				
& SUB-SECTIONS				Est. Change %		Yield %		Gross Yield %		Est. Ratio (Net)		ad. date to 1992		Index No.		Index No.		Index No.		Index No.		1992		Slope																																
Figures in parentheses show number of stocks per section		Index No.		Day's %		Yield %		Gross Yield %		Est. Ratio (Net)		ad. date to 1992		Index No.		Index No.		Index No.		Index No.		High		Low		High		Low																												
						(Mar.)		(Apr. at 25%)																																																
CAPITAL GOODS (17)		761.59		+4.1	7.65	5.83	16.86	22.52	731.70	686.07	695.30	85.58	92.04	20/5								664.23			1038.07	16/7	87	50.71	13/27/94																											
Building Materials (23)		731.59		+4.1	7.65	5.83	16.86	22.52	731.70	686.07	695.30	85.58	92.04	20/5								318.45			9/1	1038.07	16/7	87	48.27	13/27/94																										
Contracting, Construction (27)		574.52		+4.0	9.44	9.32	75.55	25.74	552.31	491.85	515.01	31.07	104/64	21/5								485.72			1953.50	16/7	87	71.48	2/12/74																											
Electricals (19)		2116.89		+2.6	9.74	11.61	76.63	26.21	228.18	189/9	175/3	265/57	275/6.50	22/5								1899.78	16/4	80/40	16/4	80/40	16/4	81.47	25/6	62																										
Electronics (27)		1973.07		+3.3	8.19	8.47	15.23	46.03	1910.59	187.65	189/4	376/9	2680/4	13/5								1655.93	13/1		2308.22	15/1	89/9	122/0.1	8/10/85																											
Engineering-Mechanics (6)		307.72		+3.3	11.72	8.47	13.83	27.95	287.45	205.85	234.61	408	13/5									279.43	13/1		2308.22	15/1	89/9	122/0.1	8/10/85																											
Engineering-General (9)		192.59		+3.3	11.72	8.47	13.83	27.95	287.45	205.85	234.61	408	13/5									279.43	13/1		2308.22	15/1	89/9	122/0.1	8/10/85																											
Metals and Metal Forming (7)		312.45		+3.3	5.56	7.00	29.95	24.16	730.29	295.45	278.22	68.32	47/37	31/5								255.51	8/1		556.67	9/1	10/87	49/5	6/1	7/5																										
Motors (14)		316.70		+4.7	8.41	7.46	15.63	14.02	399.65	276.27	285.0	364.77	40.06	21/5								274.42	1/9		41.12	16/4	19/5	19.91	6/1	7/5																										
Other Industrial Materials (19)		1761.94		+4.9	7.12	7.13	16.96	41.12	1648.58	159/86	159/86	1610/28	1966/65	11/5								1480.17	1/9		1906.65	11/5	92/7	277.55	15/1	88/1																										
CONSUMER GOODS (21)		1052.05		+4.1	7.15	36.07	17.33	28.11	1545.88	1052.05	1052.05	1052.05	1052.05	11/5								1480.17	25/8		1761.38	1/9	88/1	64.1	13/27/94																											
Food & Beverages (25)		1052.05		+4.1	7.15	36.07	17.33	28.11	1545.88	1052.05	1052.05	1052.05	1052.05	11/5								1480.17	25/8		1761.38	1/9	88/1	64.1	13/27/94																											
Food Manufacturing (19)		1186.11		+4.0	9.03	4.68	13.68	26.54	1041.92	1076	1186.11	1230.56	1387.00	11/5								1064.95	10/1		1287.00	11/5	92/7	59/7	11/27/94																											
Food Retailing (18)		2601.38		+5.2	9.41	3.51	13.84	40.40	2472.52	2233.73	2250.57	3299.16	2498	16/5								2293.80	10/1		2998.16	18/5	92/4	54.25	13/27/94																											
Health and Household (25)		4377.53		+4.0	5.06	25.25	22.92	42.46	4226.85	4111.83	4080.55	5718.76	7654.94	14/1								3468.63	26/8		4654.94	14/1	92/7	175.38	28/5	88/0																										
Houses and Leisure (19)		1052.05		+4.1	5.06	6.51	17.07	37.44	1052.05	1052.05	1052.05	1052.05	1052.05	11/5								1052.05	26/8		1052.05	26/8	92/7	54.83	9/1	7/5																										
Housing (20)		1569.99		+5.2	6.25	3.36	19.07	29.64	1526.85	1526.85	1526.85	1526.85	1526.85	11/5								1576.25	26/8		1726.09	11/5	92/7	175.38	28/5	88/0																										
Packaging, Paper & Printing (17)		696.23		+4.3	7.20	4.65	17.08	18.71	661.64	633.37	640.21	763.63	875.53	13/5								633.17	14/1		875.53	13/5	92/7	43.46	6/1	7/5																										
Stores (34)		1020.90		+5.0	6.94	3.67	19.24	31.75	965.24	238.23	960.25	988.11	1165.66	21/4								987.06	25/8		1160.58	29/7	87/1	92.63	6/1	7/5																										
Textiles (19)		649.22		+3.3	7.26	4.72	17.03	16.10	628.87	584.59	594.23	756.78	8/5									531.94	25/8		914.92	2/10/87	62/6	11/21/94																												
OTHER SERVICES (17)		1267.25		+5.1	6.25	3.36	19.07	29.64	1526.85	1526.85	1526.85	1526.85	1526.85	11/5								1140.56	3/4		1299.32	11/5	92/7	175.38	28/5	88/0																										
Business Services (13)		1330.34		+4.1	6.74	3.93	16.20	21.54	1277.94	1280.61	1204.61	1428.08	1511.16	11/5								1160.34	1/9		1511.16	11/5	92/7	28.28	1/2	9/1																										
Chemicals (22)		1367.03		+3.0	7.18	3.13	17.28	46.24	1327.31	1217.9	1284.23	1471.34	1624.99	8/5								1243.05	1/9		1629.99	9/1	92/7	71.20	1/21/94																											
Conglomerates (10)		1303.96		+4.7	8.86	4.14	14.44	32.73	1257.97	1179.9	1186.11	1337.31	1509.94	11/5								1089.72	2/9		1819.46	11/8	89/1	975.19	10/1/87																											
Transport (14)		2303.93		+4.3	8.27	4.86	14.88	56.22	2331.31	1300.21	1300.21	1300.21	1300.21	11/5								2246.26	26/8		2796.26	20/5	92/7	8.00	29/6	62																										
Telecommunications (17)		1052.05		+4.1	7.15	36.07	17.33	28.11	1545.88	1052.05	1052.05	1052.05	1052.05	11/5								1052.05	26/8		1052.05	26/8	92/7	54.83	9/1	7/5																										
Telephone Networks(4)		1428.78		+5.2	10.98	4.62	13.32	46.24	1327.31	1217.9	1284.23	1471.34	1624.99	8/5								1089.72	2/9		1819.46	11/8	89/1	975.19	10/1/87																											
Water(11)		2789.02		+6.7	16.06	6.20	6.89	86.85	2770.62	2822.89	2878.83	3479.83	3963.70	26/8								2140.95	8/4		2943.70	26/8	92/7	1820.20	1/5	90/0																										
Miscellaneous (23)		2143.59		+5.1	6.17	4.71	20.31	54.03	2075.97	1800.21	1800.21	1800.21	1800.21	11/5								1140.56	3/4		1299.32	11/5	92/7	175.38	28/5	88/0																										
Oil (17)		1896.40		+4.1	6.74	3.93	16.20	21.54	1277.94	1280.61	1204.61	1428.08	1511.16	11/5								1160.34	1/9		1511.16	11/5	92/7	28.28	1/2	9/1																										
DIVERSIFIED GROUPS (48)		1896.40		+4.1	6.74	3.93	16.20	21.54	1277.94	1280.61	1204.61	1428.08	1511.16	11/5								1160.34	1/9		1511.16	11/5	92/7	28.28	1/2	9/1																										
50-50 SHARE TRUST GROUPS (20)		1395.09		+4.3	7.98	4.75	15.76	33.75	1309.48	1249.57	1249.57	1395.44	1499.99	11/5								1756.72	2/6		2528.70	2/6	92/7	62.73	29/6	88/0																										
60-40 SHARE TRUST GROUPS (20)		1395.09		+4.3	7.98	4.75	15.76	33.75	1309.48	1249.57	1249.57	1395.44	1499.99	11/5								1756.72	2/6		2528.70	2/6	92/7	62.73	29/6	88/0																										
FINANCIAL GROUPS (31)		727.33		+4.0	-	-	-	-	27.63	708.53	694.62	672.91	802.88	862.65	20/5							763.13	25/8		896.67	13/27/94	55/8	13/21/94																												
Banks (9) ●		1010.96		+5.2	5.15	5.04	-	-	39.95	89.37	694.62	1121	960.02	1026.34	20/5							763.13	25/8		896.67	13/27/94	55/8	13/21/94																												
Insurance (16)		1513.93		+5.6	-	-	-	-	45.47	1427.40	1400.00	1416.02	1613.38	20/5								1243.61	6/1		1632.93	9/4	11/4	44.88	2/1	7/5																										
Insurance-Life (6)		489.62		+5.6	-	-	-	-	45.47	1427.40	1400.00	1416.02	1613.38	20/5								1243.61	6/1		1632.93	9/4	11/4	44.88	2/1	7/5																										
Insurance-General (10)		777.77		+10.81	47.47	12.14	-	-	39.29	64.41	591.95	594.93	1163.59	1033.35	27/1								527.43	25/8		1399.56	17/7	87/1	63.86	16/27/94																										
Merchant Banks (7)		436.42		+5.3	-	-	-	-	12.31	414.36	409.21	412.46	477.34	521.89	22/5							394.41	26/8		597.59	12/10/87	31.21	7/1	7/5																											
Property (30)		515.70		+3.9	10.95	8.83	11.17	22.22	496.46	467.41	479.32	569.23	779.49	21/5								467.41	16/4		1398.87	5/1	89/1	56.01	20/4	65																										
Other Financial (4)		232.33		+5.2	8.60	7.08	15.28	28	71.00	71.00	71.00	71.00	71.00	11/5								232.33	11/5		232.33	11/5	92/7	63.86	16/27/94																											
70 Other Financial (4)		232.33		+5.2	-	-	-	-	28	71.00	71.00	71.00	71.00	71.00	11/5								232.33	11/5		232.33	11/5	92/7	63.86	16/27/94																										
71 Investment Trusts (7)		1122.71		+5.0	-	-	-	-	31.83	1164.96	1115.60	1141.49	1256.72	1326.36	11/5							1024.12	25/8		1392.81	8/4	7/5	71.00	13/21/94																											
99 ALL-SHARE INDEX (6531)		1204.37		+4.4	-	-	-	-	31.83	1164.96	1115.60	1141.49	1256.72	1326.36	11/5							1024.12	25/8		1392.81	8/4	7/5	71.00	13/21/94																											
		Index No.							Day's %	Day's %	Day's %	Day's %	Day's %	Day's %	Day's %	Day's %	Day's %	Day's %	Day's %	Day's %	Day's %	Year %	Year %	Year %	Year %	Year %	Year %	Year %	Year %	Year %	Year %	Year %																								
FT-SE 100 SHARE INDEX		2567.01		+43.1	2577.77	2483.2	2483.9	2378.3	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	2370.01	23



## INTERNATIONAL COMPANIES AND FINANCE

## Profits warning by Philips sends share price tumbling

By Ronald van der Krol in Amsterdam

SHARES in Philips, the Dutch electronics group, tumbled by nearly 7.5 per cent yesterday after the company cautioned that profits would likely be halved this year.

Philips said that full-year results from normal business operations were expected to be halved from the 1991 level of F198m (\$557m) because of the failure of world economic recovery to emerge, the continued malaise in consumer electronics industry and the steep decline in the value of the dollar.

The warning, which followed June's statement that 1992 results were likely to fall below 1991 levels, caused Philips's shares to close down F1.80 at F122.80, though above the new 13-month lows of about F122.00 reached earlier in the day.

Philips is scheduled to publish third-quarter figures on November 5. Last month it said second-quarter net profit before extraordinary items dropped by 56 per cent,



Jan Timmer: opened the world's first DCC factory

reflecting difficult trading conditions in consumer electronics, a sector which accounts for almost half of group turnover of F157bn.

Difficulties prompted by fierce price wars in television sets, video cassette recorders and other types of consumer electronics have been exacerbated since the summer by the steep decline in the dollar,

which recently touched a series of new lows against the guilder.

Ironically, the latest profit warning came on the day that Mr Jan Timmer, company president, officially opened the world's first factory for the production of digital compact cassettes (DCC), a new audio product that Philips hopes will prove to be as successful as the analogue audio cassette.

The factory, located in the Dutch town of Amersfoort, has been operational since July. It is owned by London-based PolyGram, Philips's 80 per cent owned music company, whose good profit performance in the software side of the consumer electronics industry has not been able to compensate entirely for the slide in prices commanded by the Dutch company's hardware.

DCC players, which Philips is counting on to revitalise consumer interest in hi-fi equipment, are scheduled to go on sale in Japan on Monday, to be followed by parts of western Europe in October and the US in November.

## Euro Disney packages to improve group visits

By Alice Rawsthorn in Paris

EURO DISNEY, which has been clouded by bad publicity since the opening this spring of its Euro Disneyland theme park near Paris, is introducing special packages to try to lift group visits.

Since the opening, Euro Disney has come under criticism for failing to make proper provision for block bookings, particularly for coach parties. The company yesterday announced a new series of deals for group visits which will include discounts of between 10 per cent and 30 per cent and 4 per cent commission for travel agents. It is offering free entrance to the theme park to coach drivers for a trial period.

Euro Disney is anxious to prevent a significant fall in attendance during the seasonally slow autumn and winter months. It has always expected attendance to slacken during this period, but has hoped to counter the expected decline in foreign visitors by encouraging the French (whose attendance has so far been below target) to visit when the park will be quieter. The group packages form part of this initiative.

Euro Disney recently announced that a record 94,000 people had visited the park on September 6 and that it had attracted over 6m visitors in its first five months. However, the 6m tally suggests that Euro Disneyland will not meet its initial target of 1m visitors by the end of its first year.

Société des Bains de Mer de Monaco, the Monte Carlo-based hotel and leisure group, saw net profits slip to FF165.4m (\$30.62m) in the year to March 30 from FF178.2m in the previous year. Turnover also dipped to FF1.7bn from FF1.72bn. The group invested FF280m during the year, notably on renovating the Monte Carlo Beach Hotel.

## NCM drops to FI 23.4m midway

NCM, the Dutch credit insurer which last year acquired the short-term businesses of the British Export Credit Guarantee Department, said first-half 1992 net profit fell to FI 23.4m (\$14m) from FI 28.7m because of increased losses on reinsurance. Reuter reports from Amsterdam.

Losses on reinsurance of policies sold by other credit insurers rose to FI 18.9m from FI 3.6m.

## Itoman dissolved in merger scheme

By Robert Thomson in Tokyo

JAPAN's era of financial excess has claimed its most famous victim. Itoman, a once staid textile trader turned property and art speculator, is to be dissolved under a merger proposal announced by the Sumitomo group yesterday.

Itoman, founded in 1933 as an importer of fabric, is to be merged with Sumikin Bussan, a steel trading subsidiary of Sumitomo Metal Industries, a core company of the Sumitomo group, which has taken responsibility for the restructuring of Itoman.

The proposal, under which five Itoman shares will be swapped for one share in the unified Sumikin Bussan, reflects the influence of Keiretsu, or corporate groupings.

Itoman executives said they had attempted to salvage the company, but were hampered by the economic slowdown. They also announced what was likely to be Itoman's last profits forecast: an after-tax loss of ¥900m (\$720m) for the year to end March, when the company is to be dissolved.

Meanwhile, the Tokyo Stock Exchange (TSE) said it would look into trading of Itoman shares in recent days, when volume has been higher than average. Any further scandal linked to Itoman would continue a two-year run of unfavorable headlines at a company which was not alone in indulging in speculation.

Sumikin Bussan emphasised that it would take over none of the debts of Itoman, which still has an extensive international

trading network in textiles, food, and industrial machinery. Itoman was estimated to have ¥1,900bn in consolidated debt at its speculative peak in 1990, before the collapse of the stock, property and art markets. After the arrest of seven men last year in connection with alleged corruption, prosecutors said speculation in golf courses, the works of Modigliani, and apartments had caused losses of ¥300bn.

The company has attempted to trade its way out of trouble, but was forced to approach Sumitomo Bank, its main bank, for financial assistance in restructuring. The bank proposed the merger with Sumikin, which is 69.5 per cent owned by Sumitomo Metals. Attempts to restructure Itoman were hampered by the

negative publicity the company has attracted over the past two years. The turmoil at Itoman is cited as a reason for the fall of Mr Ichiro Koda, the Sumitomo Bank chairman, who resigned in 1990.

The close connection with the bank has been highly embarrassing for the Sumitomo group, as, in 1990, 13 of Itoman's 47 executives had worked for the institution, and the trading house's customers had believed its investments came with the bank's blessing. Itoman's ill-fated foray into property markets was once cited by executives as an indication of its successful diversification away from traditional trading pursuits. Ironically, Sumikin said yesterday that the Itoman merger was a part of its diversification strategy.

## Kvaerner buys German shipyard

By Karen Fossell in Oslo

KVAERNER, the Norwegian engineering, shipping and shipbuilding group, has acquired the Warnow shipyard in eastern Germany for a symbolic Nkr4m (\$882,000).

The deal, which propels Kvaerner into the very top league of world shipbuilders, pushed the company's shares up sharply yesterday. Its A shares jumped 8 per cent yesterday.

After 13 months of difficult negotiations the Treuhandanstalt, the German state privatization agency, has agreed to fund a Nkr2bn restructuring programme for the yard to be undertaken by Kvaerner through 1993.

The German agency will also

cover losses of up to Nkr2bn on new contracts during the yard's restructuring.

"The sum is fixed and cannot be readjusted to match the actual level of losses," Kvaerner said. The yard has contracts to build seven ships.

For its part, Kvaerner will supply the yard with technology and knowhow estimated at Nkr400m and will provide Nkr60m in cash for the purchases of services required by the yard.

Kvaerner will invest an estimated Nkr60m annually from 1995 for the yard's maintenance.

It will shed 1,000 of its 3,000-strong workforce, costs which will be covered by Treuhandanstalt.

The acquisition makes

Kvaerner Europe's biggest shipbuilder. Shipbuilding accounted for one-third of Kvaerner's Nkr3bn plus revenue in 1991.

In 1988, Kvaerner acquired Scotland's Govan shipyard and three years later purchased Finland's Masa-Yards.

The company said the Warnow yard was expected to generate revenue from 1995 and that the market for shipbuilding would improve significantly during the second half of the 1990s.

The shipyard will build vessels of up to 180,000 deadweight tonnes.

It was established in 1955 and has largely delivered specialised tonnage to eastern Europe, but has also supplied a number of vessels to the West.

## Canadian power utility trims staff

By Bernard Simon

ONTARIO Hydro, North America's second-biggest power utility and one of the most active international borrowers, is to cut 2,000 jobs and pare capital spending amid growing public criticism over its economic management.

The utility, which is owned by the Ontario provincial government, fuelled anger among business and individual consumers this week by announcing a 7.9 per cent rate increase for 1993 at a time when Canada's inflation rate is less than 2 per cent. Electricity rates went up by 11.8 per cent this year.

The planned staff cuts amount to about 7 per cent of the total workforce. In addition, the utility is considering cutting its capital spending by about C\$100m (US\$80.10m) over the next 10 years, equal to about a quarter of its planned investment budget.

The financial squeeze stems partly from the recession's impact on demand for electricity. But Hydro has also suffered heavy cost overruns on the C\$14bn Darlington nuclear power station, now in the process of being commissioned. The utility has said that rate increases could be limited to about 2 per cent if it was not hindered by Darlington and by the cost of raising its other nuclear reactors.

A growing number of municipalities and large commercial users are investigating construction of their own power generating facilities to provide cheaper electricity. Mr Marc Ellesen, the utility's chairman, earlier this week warned that siphoning revenues away from Hydro in this way might require even higher rate increases in future.

## BHP earnings advance 11%

By Emilia Tagaza in Canberra

BROKEN Hill Proprietary yesterday reported an after-tax operating profit of A\$258.9m (US\$189m) for the three months ended August, 1992, almost 11 per cent up on the same quarter last year.

Earnings per share for the Australian mining, energy and steel group increased by more than 6 per cent in the quarter to 20.2 cents from 19 cents. BHP plans to pay an

unchanged interim dividend of 19.5 cents.

The steel operations recorded the best results among the company's divisions, with profits up 8.2 per cent to A\$83m. The result was attributed to profits from New Zealand Steel and to a reduction in the cost of steel production.

Petroleum operations rose 6 per cent to A\$137.3m, thanks mainly to the higher US dollar oil price and the weaker Aus-

tralian dollar. Production was also higher during the quarter with production starting in two fields: Skua and Kurbu.

The minerals division suffered a setback with profits falling 10.5 per cent to A\$158.4m. The weaker result was due to lower prices for coal, iron ore and manganese ore.

Minerals division sales rose to A\$1.1bn from A\$1.06bn. Steel division sales rose to A\$1.47bn from A\$1.4bn.

## Siemens plans to cut 1,800 jobs

By David Waller in Frankfurt

SIEMENS, the Munich-based electronics and electricals company, is planning to cut up to 1,800 jobs worldwide in its medical technology division in 1992-93.

The move comes a month after Siemens Nixdorf Informationssysteme (SNi), Siemens's loss-making computer subsidiary, announced plans to cut its workforce by 6,000 by September 1995.

It blamed a slowdown in market growth in Germany, and difficult conditions in overseas markets, especially the US and the former Soviet Union. The division's turnover was DM7.4bn (\$4.93bn) last year and there are 31,000 employees worldwide, 13,000 in Germany.

## Oki expects to make first loss for six years

By Emilio Terazono in Tokyo

OKI Electric Industry, the Japanese communications equipment maker, expects to make an unconsolidated pre-tax loss of ¥25bn (\$200m) for the year ending next March, its first loss for six years.

Old blamed the slump in the semiconductor market. It added it will suspend its dividend payment for the first time in 14 years. The company had originally projected a ¥2bn pre-tax profit and a ¥3.5 dividend per share.

It revised down its sales forecast to ¥800bn from ¥900bn, and said it would post an after-tax loss of ¥16bn instead of an after-tax profit of ¥9bn.

For the first half to September, Oki said it would register ¥19bn in pre-tax losses and ¥9bn in after-tax losses, on sales of ¥780bn. Oki said capital spending for the full year would be reduced to ¥50bn from the planned ¥53bn.

The company said it would try to cut the workforce by 2,000 over the next three years. Nintendo, the Japanese video game maker, has revised upwards its forecast for the interim period to September due to brisk sales in video game machines. Its half-year pre-tax profit is expected to rise 6.5 per cent to ¥1bn. It plans to increase its interim dividend by ¥10 per share to ¥35.

## Italian engineer slumps to L23bn

By Haig Simonian in Milan

PRE-TAX profits at Sasib, the Italian precision engineering company controlled by Mr Carlo De Benedetti's Cir group, collapsed to L23.3bn in the first half of this year from L61.1bn in the same period of 1991.

Sasib, which has expanded rapidly through acquisitions, often of loss-making companies, blamed the fall on a 11.4 per cent drop in turnover to L322.8bn (\$52.4m) and the fact that a higher proportion of sales in the period comprised low-margin items.

The company claimed the plunge in first-half earnings was not indicative of prospects for the full year. By the end of last month, turnover had reached L449bn, thanks to strong sales in July and August, leaving the total for the first eight months down by only 3.3 per cent against the same period last year.

## Placer Dome acquires stake in copper project

By Bernard Simon in Toronto

PLACER Dome, the Vancouver-based gold producer, is making a long-term move into base metals by buying a 50 per cent stake in the Zaldívar copper project in northern Chile.

Placer has agreed to pay US\$100m in cash to Outokumpu of Finland in developing a mine at Zaldívar. In addition, the Canadian company will provide project financing of up to \$400m. The deal is expected to be finalised by December.

A final decision whether to go ahead with construction of the \$500m mine is expected in mid-1993, with copper cathode production starting two years later.

Placer has been looking for some time for an outlet for its large cash reserves. Its diversification plans suffered a setback last year when it decided not to go ahead with development of the low-grade Mount Milligan copper and gold deposit in British Columbia. It wrote off its \$230m investment in the project.

The Zaldívar project is close to La Escondida, the world's richest copper mine which began operations in late 1990.

According to a feasibility study done last May, Zaldívar contains 560m tonnes of ore with a grade of 0.82 per cent copper. Placer estimated that 140m tonnes of the ore has a grade of 1.2 per cent.

In addition, the recently-discovered Pinta Verde deposit, 1 km from Zaldívar, contains 200m tonnes of ore with a grade of 0.63 per cent.

Placer and Outokumpu said there was considerable potential to increase the resource.

## WORLD COMMODITIES PRICES

WEEKLY PRICE CHANGES	Latest prices	Change on week	Year ago	High 1992	Low 1992
Gold per troy oz.	\$352.00	+11.75	\$348.30	\$358.40	\$335.20
Silver per troy oz.	\$223.2150	+31.115	\$236.20p	\$242.70p	\$187.55p
Aluminium 99.7% (cash)	\$1249.5	-22.5	\$1188.5	\$1338.0	\$1105.0
Copper Grade A (cash)	\$1385.5	+141.0	\$1365.5	\$1340.5	\$1150.0
Nickel (cash)	\$249.0	+22.5	\$230.25	\$238.5	\$278.50
Lead (cash)	\$922.00	-17.5	\$749.75	\$819.0	\$891.0
Zinc SHD (cash)	\$1320.0	+17.0	\$1228.0	\$1457.5	\$1108.5
Tin (cash)	\$5995	+8	\$5535	\$7115.0	\$3425.0
Cocoa Futures (Dec)	\$929	+8	\$768	\$773	\$723
Coffee Futures (Nov)	\$77.5	-11	\$82.5	\$101.5	\$67.5
Sugar (LOP Raw)	\$233.4	-20.8	\$233.5	\$272.5	\$193
Barley Futures (Nov)	\$115.40	+2.7	\$114.00	\$123.90	\$106.90
Wheat Futures (Nov)	\$116.10	+2.0	\$116.10	\$131.05	\$109.95
Cotton Outlook A Index	\$7.00c	+1.20	\$9.55c	\$6.90c	\$2.25c
Wool (64s Super)	\$350	+27	\$357.0	\$490	\$349
Oil (Brent Blend)	\$20.425x	+0.40	\$21.30	\$17.00	\$17.00

Per tonne unless otherwise stated. Unquoted prices are in London.

## London Markets

SPOT MARKETS	Latest prices	Change on week	Year ago	High 1992	Low 1992
Crude oil (per barrel FOB North Sea)	\$19.50-5.55x	+0.25	\$19.50	\$20.00	\$18.00
Brent Blend (dated)	\$20.25-0.30x	+0.25	\$20.25	\$20.75	\$18.75
Brent Blend (Nov)	\$20.40-0.45x	+0.25	\$20.40	\$20.90	\$18.90
WTI (11 p.m. est)	\$21.85-1.50x	+0.25	\$21.85	\$22.35	\$20.35
Oil products					
Heating oil (per gallon CIF)	\$1.15	+0.01	\$1.15	\$1.15	\$1.15
Premium Gasoline	\$217.219	-1	\$217.219	\$217.219	\$217.219
Gas Oil	\$198.190	-1	\$198.190	\$198.190	\$198.190
Heavy Fuel Oil	\$99.92	-1	\$99.92	\$99.92	\$99.92
Naphtha	\$188.190	-1	\$188.190	\$188.190	\$188.190
Petroleum Argus Estimates					
Other					
Gold (per troy oz.)	\$352.00	+11.75	\$348.30	\$358.40	\$335.20
Silver (per troy oz.)	\$223.2150	+31.115	\$236.20p	\$242.70p	\$187.55p
Platinum (per troy oz.)	\$561.75	-4.25	\$561.75	\$561.75	\$561.75
Palladium (per troy oz.)	\$920.75	-1.25	\$920.75	\$920.75	\$920.75
Copper (US Producer)	\$115.50	+0.01	\$115.50	\$115.50	\$115.50
Lead (US Producer)	\$40.1c	+0.05	\$40.1c	\$40.1c	\$40.1c
Tin (Kuala Lumpur market)	\$16.95	+0.05	\$16.95	\$16.95	\$16.95
Zinc (US Prime Western)	\$82.0c	-1.0	\$82.0c	\$82.0c	\$82.0c
Cattle (live weight)	109.450	+0.07	109.450	109.450	109.450
Sheep (live weight)	74.850	+0.04	74.850	74.850	74.850
London daily sugar (raw)	\$233.4w	-1.8	\$233.4w	\$233.4w	\$233.4w
London daily sugar (white)	\$236.2w	-1.8	\$236.2w	\$236.2w	\$236.2w
Time and Lyte export price	\$242.0	+1.5	\$242.0	\$242.0	\$242.0
Barley (English low)	115g		115g	115g	115g
Maize (US No 3 yellow)	\$1.37.0		\$1.37.0	\$1.37.0	\$1.37.0
Wheat (US Dark Northern)	\$5.25p		\$5.25p	\$5.25p	\$5.25p
Rubber (Oct/Nov)	\$5.25p	+0.25	\$5.25p	\$5.25p	\$5.25p
Rubber (Nov/Dec)	\$5.25p	+0.25	\$5.25p	\$5.25p	\$5.25p
Rubber (Dec/Jan)	\$5.25p	+0.25	\$5.25p	\$5.25p	\$5.25p
Coconut oil (Philippines)	\$50.0y	-0.5	\$50.0y	\$50.0y	\$50.0y
Palm oil (Malaysia)	\$280.0y	-0.5	\$280.0y	\$280.0y	\$280.0y
Cocoa (Philippines)	\$250.0y	-0.5	\$250.0y	\$250.0y	\$250.0y
Soyabbeans (US)	\$148.0w	+0.40	\$148.0w	\$148.0w	\$148.0w
Cotton (A-mid)	\$7.00c	+1.20	\$9.55c	\$6.90c	\$2.25c
Wool (64s Super)	\$350	+27	\$357.0	\$490	\$349

© A time unless otherwise stated. Unquoted prices are in London.

## COCOA - London POX

Close	Previous	High/Low
Sep 613	525	616 613
Oct 628	642	644 628
Nov 659	671	672 659
Dec 680	691	692 680
Jan 699	712	713 699
Feb 718	731	732 718
Mar 737	750	751 737
Apr 756	769	770 756
May 775	788	789 775
Jun 794	807	808 794
Jul 813	826	827 813

Turnover: 5005 (10158) lots of 10 tonnes

ICE indicator price (US cents per pound) for Sep 17, 1992: 45.37 (45.25) 15 day average: 45.28 (45.24)

## COFFEE - London POX

Close	Previous	High/Low
Sep 761	755	770 760
Nov 772	766	777 772
Dec 783	777	788 783
Jan 794	788	799 794
Mar 805	799	810 805
May 816	810	821 816

Turnover: 5005 (10158) lots of 10 tonnes

ICE indicator price (US cents per pound) for Sep 17, 1992: 45.37 (45.25) 15 day average: 45.28 (45.24)

## POTATOES - London POX

Close	Previous	High/Low
Sep 57.5	56.2	58.0 57.0
Nov 58.5	57.2	59.0 58.0
Dec 59.5	58.2	60.0 59.0
Jan 60.5	59.2	61.



## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

## Franc edges close to floor

THE BANK OF FRANCE intervened heavily to support the franc yesterday after continuing tensions in the European exchange rate mechanism forced the currency close to its floor against the D-Mark, writes James Blitz.

On Thursday, the franc touched its ERM floor of FF3.4065, as the market continued to assume that Sunday's Maastricht referendum in France could produce a No vote, bringing European Monetary Union to an end. Yesterday the Bank of France intervened in the foreign exchange markets for the second day running in an operation which dealers described as "substantial".

The Bank also briefly suspended its 5-10 day lending facility, a move which pushed short term lending rates up to 20 per cent - although some dealers said that rates were as high as 80 per cent at one stage. The facility was later reintroduced.

Analysts said that the French operation had been extremely successful. "The French managed to hold the franc without pushing up bank lending rates, a move which would have produced more No votes in the referendum," said Mr Jim Hall, an economist at Swiss Banking Corporation in London. The franc closed at FF3.4230 to the D-Mark, 0.75 cents above its floor.

The Irish punt was also under pressure, trading close to its floor of DM2.6190 to the punt. As in France, market interest rates went up as pressure on the currency continued, with some dealers suggesting that overnight rates were being measured in "thousands of percent." In London, it closed at DM2.6525 to the punt.

The fate of the mechanism probably depends on the result of the Maastricht referendum in France tomorrow. "If there is a Yes, the French, the Germans and the Benelux countries will probably do their best to hold the ERM together," said Mr Mark Austin, chief economist at HongKong and Shanghai Banking Corp in London. But the market has seen how fragile the EMS is and it will be hard to restore credibility.

Pressure on sterling was intense following an interview with Mr Norman Lamont, the UK Chancellor, in which he cast doubt about the prospects of an early return by sterling to the ERM. The pound is probably no longer overvalued against the D-Mark when taken into account. But there was heavy selling of sterling by big investment funds yesterday, and the trend could still be downward. "If we get a total about turn in UK economic strategy, the pound will come under pressure, going perhaps as low as DM2.50," said Mark Austin. Sterling closed 3.75 pence down against the D-Mark at DM2.5125.

## £ IN NEW YORK

Spot	1.7400-1.7700	1.7600-1.7900
1 month	1.7400-1.7700	1.7600-1.7900
3 months	1.7400-1.7700	1.7600-1.7900
6 months	1.7400-1.7700	1.7600-1.7900
12 months	1.7400-1.7700	1.7600-1.7900

Forward premiums and discounts apply to the US dollar.

## STERLING INDEX

Spot	100.00	100.00
1 month	100.00	100.00
3 months	100.00	100.00
6 months	100.00	100.00
12 months	100.00	100.00

Source: Reuters. Sterling closed at 100.00.

## CURRENCY MOVEMENTS

Spot	100.00	100.00
1 month	100.00	100.00
3 months	100.00	100.00
6 months	100.00	100.00
12 months	100.00	100.00

Source: Reuters. Sterling closed at 100.00.

## CURRENCY MOVEMENTS

Spot	100.00	100.00
1 month	100.00	100.00
3 months	100.00	100.00
6 months	100.00	100.00
12 months	100.00	100.00

Source: Reuters. Sterling closed at 100.00.

## CURRENCY MOVEMENTS

Spot	100.00	100.00
1 month	100.00	100.00
3 months	100.00	100.00
6 months	100.00	100.00
12 months	100.00	100.00

Source: Reuters. Sterling closed at 100.00.

## CURRENCY MOVEMENTS

Spot	100.00	100.00
1 month	100.00	100.00
3 months	100.00	100.00
6 months	100.00	100.00
12 months	100.00	100.00

Source: Reuters. Sterling closed at 100.00.

## CURRENCY MOVEMENTS

Spot	100.00	100.00
1 month	100.00	100.00
3 months	100.00	100.00
6 months	100.00	100.00
12 months	100.00	100.00

Source: Reuters. Sterling closed at 100.00.

## CURRENCY MOVEMENTS

Spot	100.00	100.00
1 month	100.00	100.00
3 months	100.00	100.00
6 months	100.00	100.00
12 months	100.00	100.00

Source: Reuters. Sterling closed at 100.00.

## CURRENCY MOVEMENTS

Spot	100.00	100.00
1 month	100.00	100.00
3 months	100.00	100.00
6 months	100.00	100.00
12 months	100.00	100.00

Source: Reuters. Sterling closed at 100.00.

## CURRENCY MOVEMENTS

Spot	100.00	100.00
1 month	100.00	100.00
3 months	100.00	100.00
6 months	100.00	100.00
12 months	100.00	100.00

Source: Reuters. Sterling closed at 100.00.

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1 month	100.00	100.00
3 months	100.00	100.00
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3 months	100.00	100.00
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12 months	100.00	100.00

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Spot	100.00	100.00
1 month	100.00	100.00
3 months	100.00	100.00
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12 months	100.00	100.00

Source: Reuters. Sterling closed at 100.00.

## CURRENCY MOVEMENTS

Spot	100.00	100.00
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3 months	100.00	100.00
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12 months	100.00	100.00

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## CURRENCY MOVEMENTS

Spot	100.00	100.00
1 month	100.00	100.00
3 months	100.00	100.00
6 months	100.00	100.00
12 months	100.00	100.00

Source: Reuters. Sterling closed at 100.00.

## FINANCIAL FUTURES AND OPTIONS

## LIFE LONG GILT FUTURES OPTIONS

Strike	Call	Put	Settlement
100	0.00	0.00	0.00
101	0.00	0.00	0.00
102	0.00	0.00	0.00
103	0.00	0.00	0.00
104	0.00	0.00	0.00
105	0.00	0.00	0.00
106	0.00	0.00	0.00
107	0.00	0.00	0.00
108	0.00	0.00	0.00
109	0.00	0.00	0.00
110	0.00	0.00	0.00
111	0.00	0.00	0.00
112	0.00	0.00	0.00
113	0.00	0.00	0.00
114	0.00	0.00	0.00
115	0.00	0.00	0.00
116	0.00	0.00	0.00
117	0.00	0.00	0.00
118	0.00	0.00	0.00
119	0.00	0.00	0.00
120	0.00	0.00	0.00

Estimated volume: 100,000 contracts. Previous day's open: 100,000 contracts.

## LIFE LONG GILT FUTURES OPTIONS

Strike	Call	Put	Settlement
100	0.00	0.00	0.00
101	0.00	0.00	0.00
102	0.00	0.00	0.00
103	0.00	0.00	0.00
104	0.00	0.00	0.00
105	0.00	0.00	0.00
106	0.00	0.00	0.00
107	0.00	0.00	0.00
108	0.00	0.00	0.00
109	0.00	0.00	0.00
110	0.00	0.00	0.00
111	0.00	0.00	0.00
112	0.00	0.00	0.00
113	0.00	0.00	0.00
114	0.00	0.00	0.00
115	0.00	0.00	0.00
116	0.00	0.00	0.00
117	0.00	0.00	0.00
118	0.00	0.00	0.00
119	0.00	0.00	0.00
120	0.00	0.00	0.00

Estimated volume: 100,000 contracts. Previous day's open: 100,000 contracts.

## LIFE LONG GILT FUTURES OPTIONS

Strike	Call	Put	Settlement
100	0.00	0.00	0.00
101	0.00	0.00	0.00
102	0.00	0.00	0.00
103	0.00	0.00	0.00
104	0.00	0.00	0.00
105	0.00	0.00	0.00
106	0.00	0.00	0.00
107	0.00	0.00	0.00
108	0.00	0.00	0.00
109	0.00	0.00	0.00
110	0.00	0.00	0.00
111	0.00	0.00	0.00
112	0.00	0.00	0.00
113	0.00	0.00	0.00
114	0.00	0.00	0.00
115	0.00	0.00	0.00
116	0.00	0.00	0.00
117	0.00	0.00	0.00
118	0.00	0.00	0.00
119	0.00	0.00	0.00
120	0.00	0.00	0.00

Estimated volume: 100,000 contracts. Previous day's open: 100,000 contracts.

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Strike	Call	Put	Settlement
100	0.00	0.00	0.00
101	0.00	0.00	0.00
102	0.00	0.00	0.00
103	0.00	0.00	0.00
104	0.00	0.00	0.00
105	0.00	0.00	0.00
106	0.00	0.00	0.00
107	0.00	0.00	0.00
108	0.00	0.00	0.00
109	0.00	0.00	0.00
110	0.00	0.00	0.00
111	0.00	0.00	0.00
112	0.00	0.00	0.00
113	0.00	0.00	0.00
114	0.00	0.00	0.00
115	0.00	0.00	0.00
116	0.00	0.00	0.00
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118	0.00	0.00	0.00
119	0.00	0.00	0.00
120	0.00	0.00	0.00

Estimated volume: 100,000 contracts. Previous day's open: 100,000 contracts.

## LIFE LONG GILT FUTURES OPTIONS

Strike	Call	Put	Settlement
100	0.00	0.00	0.00
101	0.00	0.00	0.00
102	0.00	0.00	0.00
103	0.00	0.00	0.00
104	0.00	0.00	0.00
105	0.00	0.00	0.00
106	0.00	0.00	0.00
107	0.00	0.00	0.00
108	0.00	0.00	0.00
109	0.00	0.00	0.00
110	0.00	0.00	0.00
111	0.00	0.00	0.00
112	0.00	0.00	0.00
113	0.00	0.00	0.00
114	0.00	0.00	0.00
115	0.00	0.00	0.00
116	0.00	0.00	0.00
117	0.00	0.00	0.00
118	0.00	0.00	0.00
119	0.00	0.00	0.00
120	0.00	0.00	0.00

Estimated volume: 100,000 contracts. Previous day's open: 100,000 contracts.

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101	0.00	0.00	0.00
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107	0.00	0.00	0.00
108	0.00	0.00	0.00
109	0.00	0.00	0.00
110	0.00	0.00	0.00
111	0.00	0.00	0.00
112	0.00	0.00	0.00
113	0.00	0.00	0.00
114	0.00	0.00	0.00
115	0.00	0.00	0.00
116	0.00	0.00	0.00
117	0.00	0.00	0.00
118	0.00	0.00	0.00
119	0.00	0.00	0.00
120	0.00	0.00	0.00

Estimated volume: 100,000 contracts. Previous day's open: 100,000 contracts.



## LONDON STOCK EXCHANGE Dealings

Details of business done shown below have been taken with consent from last Thursday's Stock Exchange Official List and should not be reproduced without permission.

Details relate to those securities not included in the FT Share Information Services.

Unless otherwise indicated prices are in pence. The prices are those at which the business was done in the 24 hours up to 5 pm on Thursday and settled through the Stock Exchange Tallman system, they are not in order of execution but in ascending order which denotes the day's highest and lowest dealings.

For those securities in which no business was recorded in Thursday's Official List the latest recorded business in the four previous days is given with the relevant date.

Rule 55(2) and Third Market listings are not regulated by the International Stock Exchange of the United Kingdom and the Republic of Ireland Ltd.

\* Bargains at special prices. \* Bargains done the previous day.

## British Funds, etc

No. of bargains included 34

Trustee 13% S. 2000/01 - 111% (1992)

Equity 10% S. 2000/01 - 111% (1992)

Guaranteed Export Finance PLC 12% S. 2000/01 - 111% (1992)

12% S. 2000/01 - 111% (1992)

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BOC Group PLC ADR (1:1) - \$12.72  
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**AUTHORISED  
UNIT TRUSTS**

American Gila Inc	6	38.42	39.12	41.00	40.00	41.33
Do (Account)	6	39.68	39.80	42.54	41.00	41.33
European Growth	6	63.22	63.22	69.00	67.00	67.00
Do (Account)	6	63.93	63.99	69.83	67.00	67.00
Global Bond Inc	6	53.99	54.46	57.50	56.25	56.25
Do (Account)	6	55.05	55.05	57.50	56.25	56.25
Kingston P Fund Inc	6	25.77	25.77	27.67	26.00	26.00
Do (Account)	6	25.84	25.84	27.75	26.00	26.00
Pacific GrowthFund	6	64.54	64.54	71.33	69.00	69.00
Intl Spec Opn Acctn	6	56.10	56.10	62.13	60.00	60.00

Consistent Unit Tst Wang Co Ltd (12000F)  
 White Hart Yd, Lonsdale Bridge SE1 JAX 077 4007 5966  
 Intermex UT ..... 31 52 30 25 9948 24 73 +0.06 5 74  
 Intermex UT Acc ... 31 53 51 25 8141 25 63 +0.93 5 74

Co-op Pension Fds UT Ngrs Ltd (10000F)  
 10-20 Cornhill, London EC3N 3AF 077-2831 9999  
 Family Bize Sep 15 01 6037 5 603 5 612 54 .. 14 46  
 Family Acc Sep 15 .. 01 6415 0 1415 0 1438 41 .. 14 46

of Anti Rac	5%	56.07	56.09	60.15	60.16	63.63
of International	34%	87.16	87.16	43.22	43.22	42.42
of Peace						
of Peace	51%	92.11	92.11	104.82	111.76	115.77
of Peace	51%	70.11	70.11	74.44	111.82	95.95
of Peace	51%	82.54	82.54	89.66	111.11	115.15
of Peace	51%	48.92	48.92	52.44	111.82	115.85
of Peace	51%	81.82	81.82	87.81	111.82	115.85
of Peace	51%	70.54	130.54	130.54	111.82	115.85
of Peace	51%	104.04	104.04	112.11	111.82	115.85

	1982	1983	1984	1985	1986
Deposits	5.24	48.51	52.72	61.10	7.3
Loans	5.24	154.8	154.8	156.9	1.68
Assets	5.24	55.25	67.32	68.25	3.43
Liabilities	5.24	47.25	47.25	47.25	3.99
Equity	5.24	89.13	89.13	89.13	2.32
Assets	5.24	49.17	59.17	59.17	2.32
Liabilities	5.24	113.7	113.7	113.7	4.62
Equity	5.24	113.7	113.7	113.7	4.62

\* Government Annual Rate

1000; (Φ) - 1101 to 1400 hours; (Φ) - 1401 to 1700 hours; (Φ) - 1701 is indicated. Only testing times are set on the basis of the validation experiment; a short period of time may elapse before plans become available.

**Assecurazioni e Delt Trust**  
**Savoy Depot Station,**  
**London WC2R 0EX**

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**INITIAL CHARGE:** Charge made on sale of **HISTORIC PRICING:** The letter H denotes

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## WORLD STOCK MARKETS

## EUROPE

## Euphoric response to Italian budget

A DEGREE of euphoria in Italy was one of the main features yesterday, as bourses waited for the result of the French Maastricht referendum on Sunday, writes *Our Markets Staff*.

MILAN welcomed the L83,000bn of deficit-cutting measures presented in Rome late on Thursday. The Comit index rose another 8.38 to 375.51, up 2.3 per cent on the day, and by the same figure on a week which saw drops of 3.3, 1.6 and 4.9 per cent on Monday, Tuesday and Wednesday.

Most leading blue chips rose, with Montedison up 6.7 per cent following the merger of its polypropylene operations with Royal Dutch/Shell. Mr John Stewart of Pastorino & Partners said that the deal put together Montedison's technical expertise with Shell's raw materials, that the high debt of Montedison's Hionorm subsidiary might be subsumed in this venture and that the deal could have a significant effect on Montedison earnings in 1993.

Pastorino was worried, however, by the budget's provision to tax corporate net assets by 0.75 per cent per annum, pointing out that this could cost Fiat, for example, 10 per cent

FT-SE Eurotrack 100 - Sep 18									
Hourly changes									
Open	10.30am	11 am	12 pm	1 pm	2 pm	3 pm	close		
1062.82	1066.71	1066.40	1066.45	1068.20	1068.51	1069.10	1070.95		
Day's High				1071.42	Day's Low				1062.57
Sep 17		Sep 18		Sep 15		Sep 14		Sep 11	
1058.13		1053.83		1051.89		1073.79		1053.57	

Base value 1000 (20/10/90)

of 1991's L1,144bn earnings. FRANKFURT extended current share price themes as the DAX index rose 10.68 to 1,589.33, up 4 per cent on the week but well below its intra-day high of 1,598.23.

Traders said that futures-related buying from the Deutsche Terminbourse (DTB) had pushed prices higher, but that selling pressure from abroad more than negated that.

The expiry of index and futures contracts pushed turnover up from DM5.9bn to DM9.7bn. Banks and insurance shares continued to outpace the market, lifted by interest rate cuts, the prospect of them and the rise in bond values reflected in a fall in the average bond yield from 8.21 to 7.76 per cent this week.

In carmakers, conditions continued to favour BMW, up

DM7 to DM551.50, against Volkswagen which rose only 30 pf to DM321.10 in a week marked by the currency threat to VW's overseas profit margins and what economic austerity might do to its sales in the home market.

Construction rose on hopes of lower interest rates. Bilfinger & Berger, DM4.40 to DM9.00, and Holzmann by DM33 marks to DM295.

PARIS, quietly confident of a Yes vote in tomorrow's Maastricht referendum, closed at its highest level since the beginning of July. Assuming a positive result, a cut in interest rates is anticipated, and has been reflected this week in the rise of financial and bank stocks. The CAC-40 index closed 30.20 up to 1,882.94, 4.5 per cent better on the week. Turnover swelled to FF4bn.

Peugeot went against the market after some analysts downgraded the stock following a meeting with the company in Paris yesterday. It was reported that Peugeot sales will suffer in the depressed European car market and lower full year profits are forecast. The shares dipped FF39, or 6 per cent to FF936.

Axa was another loser, down FF28 or 3 per cent to FF600 although it denied rumours that talks were being held with Agnol of the Netherlands on a possible merger.

AMSTERDAM had a good day in spite of a profits downgrade by Philips, which saw its shares lose FL1.80 to FL2.80. The CBS Tendency index put on 1.0 to 113.6, a 4 per cent advance over the week. BRUSSELS eased in late trading as the Bel-20 index slipped 1.32 to 1,120.34, up 4.7 per cent on the week. Turnover was BF1.2bn. Delhaize retreated just before the close as its US division forecast disappointing third quarter earnings. Its shares fell BF7.70 or 4.1 per cent to BF71.640.

STOCKHOLM rallied on hopes that talks between the government and opposition

parties would lead to a package of measures to reduce the budget deficit. The Affarsvärden general index closed 23.4 higher at 758.7, up 5.3 per cent on the week.

While most sectors performed well, one of the day's losers was Skanska, the construction group, which said that it faced increased financing costs of SKr100m a day because of the 500 per cent marginal lending rate. Its free shares slipped SKr7, or 12.5 per cent to SKr49.

OSLO's advance was assisted by the stronger dollar and the composite index gained 11.97 to 336.15, a 7.2 per cent rise on the week. The industry index put on 20.97 to 594.30. Among the day's active issues Kvaerner free shares gained NKr11 to NKr146 on news that it was to take over an east German shipyard.

VIENNA, which has been outperforming many European bourses in recent days, closed the week in positive mood. The ATX index gained 26.69 to 835.70, up 12 per cent on the week. Austrian Airlines was actively traded, advancing Sch110 or 5.8 per cent to Sch210.0.

## Spanish stocks falter on economic worries

But 1993 prospects may improve writes Peter Bruce

No-one could have scripted a more nerve-wracking scenario than the one facing Madrid's unhappy stockbrokers next week.

For more than a year now, with the general index languishing mostly in the mid to low 200s, brokers have been desperately trying to convince clients that the market is cheap and that a major rebound is just around the corner. It has never come.

Earlier this year the markets were stunned again by very bad inflation figures but the government seemed to have grasped the nettle in March when it published a rigorous plan to contain public spending and converge the economy with those of leading European Community member states.

A few weeks later, however, data began to show a massive overshoot on public spending and the current account deficit, making it clear that spending targets contained in the convergence plan could not possibly be met this year.

In June the Danes voted against the Maastricht treaty and foreign investors, the mainstay of the equity markets, began to desert in droves. The government, determined to try and keep the convergence plan on target, then side-swiped the market again, just before the August holiday, by announcing a tough fiscal package which included raising VAT and income tax, raising the amount retained on incomes, and a slew of cuts on 1992 ministerial budgets not already committed.

Interest rates rose from 12.4 per cent to 13 per cent, but it was about then that the scale of French resistance to the Maastricht treaty began to become apparent; the peseta came under pressure.

In a fair world, the 5 per cent devaluation of the currency forced on the Spaniards this week should have been the last straw. But no. Tomorrow the French vote on the Maastricht referendum and in the next few weeks Mr Carlos Solchaga, the finance minister, will

inflict probably the meanest budget in 10 years of government by the Socialist Party.

The market simply did not know what to do with the devaluation, so long resisted by the government and so often demanded by industry.

But if the peseta survives a No vote, and the government sticks to its budget 1993 is actually looking quite bright. For a start, the rise in VAT planned for 1993 was brought forward to last August. That, combined with the fact that the economy is slowing down so quickly now, with 1992 growth estimates having fallen from around 3 per cent to around 1.5 per cent, is more than likely to drive prices down and open the way for interest rate cuts next year.

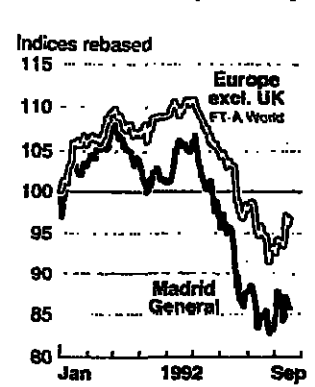
Even yesterday, the peseta was beginning to claw its way back, close to its new D-Mark parity of Ptas64.42 after falling as low as Ptas71.00.

In the meantime, perfectly good stocks are still likely to be ignored. Spain's profitable big banks, by any measure, are cheap, with average price earnings ratios close to half of what they were in 1989. But the banks have huge capital adequacy ratios, about 14 on average, and have already provisioned about 4 per cent of their total loans.

Construction stocks, the other favourite with foreign and local investors, will probably have to wait longer for a fulsome recovery as public spending limits are raised to keep in line with Madrid's commitment to continue infrastructure spending.

Industrials are also likely to struggle to take advantage of devaluation, even although Spanish exports should be boosted by its effect. Industrial exports are low anyway, and with economic slowdown in the EC, Spain's biggest market, 5 per cent may not be enough to overcome the fact that very few companies, Tudor, the battery maker, and the Campofrio processed meats group among others - have well developed export networks.

Secondly, short-term interest rate uncertainty could hurt the rate sensitive but popular utility



Source: FT Graphs

On Thursday the index moved hardly at all, to close marginally down at 210.98. Yesterday, while the government was working hard not to raise interest rates and insisting that devaluation would put less than half a percent average point on inflation, the index gained 3.99 to 214.93 on renewed hopes for a Yes vote in France. The market has risen 4 per cent on the week.

What might the market do on Monday? In the worst case, and as far as the Spanish are concerned that means a No vote, brokers are preparing themselves for a fall. But even if the vote is a Yes, there is no guarantee that the market will behave any differently from the way it was behaving before the French referendum became an issue.

Partly, this is because the scale of this year's deficits. Also, doubts about interest rate cuts have forced long bond yields upwards, close to short term yields; and the Treasury is to finance the bulk of the 197bn requirement for the rest of the year in short term paper, thus draining more liquidity from equities.

Secondly, short-term interest rate uncertainty could hurt the rate sensitive but popular utility

## AMERICA

## Equities stay calm on triple witching day

## Wall Street

US EQUITIES withstood the first round of yesterday's triple witching with equanimity, as prices held steady at midday in heavy volume, writes *Karen Zagor in New York*.

At 1pm, the Dow Jones Industrial Average was 4.32 higher at 3,320.02 in heavy volume of more than 141m shares, with advancing issues leading those declining by a ratio of 9 to 7. Among other market indices, the Standard & Poor's 500 was quoted 1.37 higher at 421.30, while the Nasdaq composite fell 1.02 to 585.77.

The quarterly "triple witching", when stock index futures, stock-index options and options on individual stocks all expire, is usually marked by volatility. Yesterday morning

was notable for its comparative calm.

In the bond market, prices moved broadly lower in the morning, but trading was light as investors awaited the outcome of the French referendum on Maastricht tomorrow. At mid-session, the treasury's benchmark 30-year bond was 1/8 lower at 98 1/2, yielding 7.361 per cent, while shorter-dated maturities posted slimmer losses.

Blue chip stocks dominated big board trading in the morning, with Chrysler climbing 1/4 to a year-high of \$22 1/2, Merck slipping 1/4 to \$46 1/2, Coca Cola adding 1/4 to \$44 1/2 and International Business Machines off 1/4 to \$33 1/2.

Boeing edged 1/4 lower to \$34 1/2, a 52-week low, after PaineWebber cut its rating on the stock and reduced earnings

predictions for the company, reflecting a weak market for jet aircraft. Boeing shares lost ground on Thursday on news of the company's agreement with FGA Crouse to transfer delivery of aircraft worth \$5bn for up to three years.

Shares in McDonnell Douglas, another big US aviation company, lost 1/4 to \$40 1/2. In the insurance sector, shares in USF&G added 1/4 to \$10 1/2 in spite of news that the company expects its losses from Hurricane Andrew to be about \$45m after taxes and reinsurance, compared with earlier estimates of about \$40m. Shares in Aetna, which has a large exposure to Hurricane Andrew, rose 1/4 to \$39 1/2.

Photographic equipment maker Eastman Kodak edged 1/4 lower to \$44 1/2. The company said that its chief financial officer would retire on February 1.

In Nasdaq trading, Borland International tumbled 1/4 to \$42 in hectic business after Goldman Sachs cut its second quarter earnings estimates for the company to 20 cents a share from 25 cents, and reduced its fiscal 1993 projections by 20 cents to \$1.45.

Other active Nasdaq stocks included Microsoft, down 1/4 to \$79 1/2 and Intel, unchanged at \$64 1/2.

Food Lion, which reported third quarter net earnings of 10 cents a share, against 11 cents a year earlier, fell 1/4 to \$9 1/2.

Canada

TORONTO was mixed in moderate trade at midday, with significant gains confined to the gold and silver and real estate

sectors.

The TSE 300 index edged up 1.7 to 3,447.7 in volume of 17.3m shares valued at C\$205.7m. Declines outstripped advances by 207 to 191 with 227 unchanged.

On gold, a dealer said that the bullion price was up by about US\$4.10 in December contracts. The gold and silver index rose 82.08, or 1.1 per cent, to 5,584.30 on solid gains by the sector heavyweights, American Barrick and Placer Dome.

SOUTH AFRICA

JOHANNESBURG remained quiet with selective buying of blue chips on the last day for investors to register for dividends. The industrial index advanced 19 to 4,127 while the overall index was up 13 at 3,167. Golds rose 2 to 921.

## ASIA PACIFIC

## Nikkei inches up on political support

## Tokyo

JAPANESE equities closed marginally higher on late afternoon index-linked buying after Mr Kiichi Miyazawa, the prime minister, said that the government would, if necessary, take additional fiscal measures to support the economy, writes *Amiko Terazawa in Tokyo*.

The Nikkei average closed up 50.28 at 19,658.90, barely changed on the week, recording a day's low of 17,753.13 and a high of 18,278.58. Profit-taking pushed the index lower during most of the session. However, late afternoon buying by arbitrageurs and investment trusts buoyed the market in the final hour.

Volume rose slightly to 330m shares from 265m. Analysts pointed out that dull volume represented possible near term sluggishness in share prices. Declines outnumbered advances by 527 to 399, with 203 issues unchanged. The Topix index of all first section stocks lost 1.58 to 1,354.05 and in London the ISE/Nikkei 50

index rose 1.23 to 1,065.70.

While some traders blamed volatile currency markets for the quiet trading others remarked that the effect of European currency movements on Japanese financial markets seemed to be minimal.

Activity centered on short-term trading of speculative issues. Mining and metal issues which rose on Thursday on reports of a gold mine discovery in southern Japan were traded actively. Mitsui Mining & Smelting, the most active issue of the day, advanced ¥17 to ¥470. However, Sumitomo Metal Mining fell ¥34 to ¥748 on profit taking.

Securities houses saw downward earnings revisions, and there was a medium of downward movement although analysts said that the week's business prospects had already been discounted. Nikko Securities fell ¥8 to ¥725 and Yamaiichi Securities ¥25 to ¥635, but Nomura Securities, the largest broker, remained unchanged at ¥1,630.

In Osaka, the OSE average lost 10.26 to 19,391.15 in vol-

ume of 20.3m shares.

## Roundup

A SELECTION of domestic and international concerns exercised the region yesterday.

AUSTRALIA put News Corp and BHP ahead of currency worries as the All Ordinaries index closed 11.8 higher at 1,529.6, a 0.8 per cent up on the week in turnover of A\$3.8bn. News Corp's presentation to analysts in Sydney, taking in a forecast of 20 per cent earnings growth in 1993/94, pushed the shares up by 96 cents to A\$24.36, while BHP rose 20 cents to A\$12.20 after good first quarter results.

HONG KONG strengthened in moderate trade, reflecting gains in local stocks in London overnight and encouraged, for progress in Sino-British talks over the financing of Hong Kong's new airport. The Hang Seng index rose 51.42 to 5,899.32, 2.7 per cent higher on the week in turnover down from HK\$1.94bn to HK\$1.82bn.

HSBC again topped the active list and closed HK\$1

higher at HK\$54.50, followed by Wharf Holdings which leapt 70 cents to HK\$16.30.

TAIWAN plunged at the opening after Thursday's 6.1 per cent drop, but finished mixed on institutionally-led, blue chip buying. The weighted index, down more than 120 points in early trade, ended 4.08 lower at a 20-month low of 3,437.80, 9.2 per cent down on the week. Turnover was a thin T\$16.6 billion.

BANGKOK's finance, securities, property and bank shares rose on post-election bullishness, pushing the SET index to a new 1992 high, in the most active trade in the 17-year history of the market.

The index jumped 11.19, or 1.4 per cent to 835.45, 4.2 per cent higher on the week, in turnover of Bt6.67bn. Eight finance and securities issues were among the 10 most highly traded stocks, and several in this group reached new highs for the year.

BOMBAY took a breather, the BSE index rising just 5.44 to 3,383.62, up 5.1 per cent on the week.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

THURSDAY SEPTEMBER 17 1992													WEDNESDAY SEPTEMBER 16 1992					DOLLAR INDEX		
Figures in parentheses show number of times of stock													Figures in parentheses show number of times of stock					Figures in parentheses show number of times of stock		
US Dollar Index	Day's Change	Pound Sterling Index	YTD Index	DM Index	Local Currency Index	Local C. chg on day	Gross Yield	US Dollar Index	Pound Sterling Index	YTD Index	DM Index	Local Currency Index	1992	1991	Year ago (approx)					
Australia (68)	129.70	-0.3	107.97	101.95	100.00	118.06	+0.1	4.15	130.14	106.54	102.79	102.74	117.93	153.68	124.36	150.90				
Austria (19)	158.02	+3.0	131.55	124.21	121.84	121.58	+0.9	2.40	153.44	125.82	121.20	121.14	120.53	186.70	129.27	182.11				
Belgium (12)	143.40	+0.4	119.36	112.71	110.58	100.04	+1.4	5.69	138.95	113.52	109.21	109.47	106.52	120.27	135.67	120.35				
Canada (14)	125.47	+0.3	104.45	98.82	96.73	110.82	+0.0	3.14	125.15	102.48	98.85	99.80	110.65	148.12	134.32	139.20				
Denmark (35)	202.36	+1.8	168.79	157.49	154.48	154.48	+0.2	1.87	198.78	161.10	154.48	154.48	154.48	176.30	168.78	168.78				
Finland (15)	54.95	+3.8	46.74	43.19	42.37	53.29	+1.1	2.85	52.82	43.33	41.80	41.76	52.69	84.92	92.22	92.17				
France (102)	160.36	+1.4	133.49	126.04	123.63	87.80	+0.2	3.52	158.22	129.53	124.98	124.90	127.58	146.75	148.06	142.39				
Germany (84)	115.75	+3.6	89.54	81.19	80.41	81.1	+1.1	5.28	111.97	81.47	81.47	81.47	81.47	128.69	101.37	109.69				
Hong Kong (63)	233.15	+0.4	194.09	183.28	178.77	183.28	+21.39	+0.4	255	230.47	183.28	183.28	183.28	183.28	183.28	183.28				
Ireland (17)	148.98	+2.4	122.07	117.10	114.88	118.23	+1.4	4.85	145.24	119.14	114.90	114.90	116.55	173.71	145.54	163.55				
Italy (78)	122.06	+5.7	43.34	40.92	40.14	47.78	+3.9	4.35	49.25	40.32	39.90	38.88	45.09	80.86	49.25	78.68				
Japan (473)	109.02	+0.2	90.76	85.89	84.07	85.89	+0.2	0.90	108.24	85.49	85.49	85.49	85.49	176.30	151.60	151.60				
Malaysia (60)	240.24	+0.7	193.59	188.35	185.22	232.38	+0.6	2.84	238.62	195.85	188.35	188.35	230.20	249.47	212.13	212.13				
Mexico (10)	124.59	+0.0	103.52	97.71	95.82	4207.52	+0.0	1.43	124.19	101.75	98.91	98.91	4207.52	178.77	121.33	119.57				
Netherlands (25)	163.36	+3.0	135.99	128.41	125.98	124.33	+0.2	4.58	158.68	129.00	125.33	125.27	124.33	147.92	147.88	140.56				
New Zealand (14)	43.18	+0.5	33.85	33.05	33.30	42.03	+1.1	5.28	42.97	35.18	33.34	33.34	41.57	48.26	41.58	45.23				
Norway (22)	148.92	+2.4	118.08	111.48	108.35	115.69	+1.2	2.09	138.51	108.35	108.35	108.35	108.35	108.35	108.35	108.35				
Singapore (26)	155.69	-1.1	155.41	148.74	143.94	137.65	-1.2	2.38	158.51	154.57	149.13	149.05	139.26	229.83	180.71	182.29				
South Africa (51)	178.40	-2.0	146.51	140.22	137.54	154.57	+0.5	3.90	182.02	149.01	143.78	143.69	153.75	203.60	173.15	201.28				
Spain (16)	123.72	-2.2	104.80	98.30	96.83	97.31	+0.7	6.07	123.51	105.21	101.70	101.40	98.82	161.72	125.72	155.81				
Sweden (30)	167.08	+0.8	138.82	128.50	127.38	138.38	-0.3	2.95	168.39	131.58	131.58	131.58	131.58	131.58	131.58	131.58				
Switzerland (60)	118.45	+3.1	98.61	93.11	91.34	94.84	+0.8	2.26	114.91	94.07	90.77	90.73	94.14	118.45	95.99	93.61				
United Kingdom (228)	174.21	+3.0	145.02	136.92	134.30	145.02	+4.7	5.07	169.19	139.51	133.62	133.66	138.51	200.39	165.95	179.99				
USA (522)	171.20	+0.0	142.52	134.58	132.00	171.20	+0.0	2.96	171.22	147.17	135.24	135.18	171.22	173.37	160.82	157.98				
Europe (762)	142.23	+2.7	118.40	111.80	108.66	114.80	+2.4	4.14	138.52	113.40	109.41	109.36	111.95	156.88	138.52	141.79				
Nordic (100)	152.12	+1.3	126.63	119.57	117.29	118.21	+0.5	2.54	150.15	122.92	118.59	118.59	118.59	145.55	136.51	181.11				
Pacific Basin (716)	113.48	+0.8	94.49	89.20	87.49	90.76	+1.2	1.34	112.76	87.49	87.49	87.49	87.49	87.49	87.49	87.49				
Europe America (638)	168.34	+0.0	140.14	132.34	128.82	147.08	+0.0	2.97	168.34	130.81	100.84	97.28	97.24	99.27	144.21	138.70				
Northern Europe (54)	122.59	+2.5	102.08	96.36	94.54	97.31	+0.7	3.48	119.53	97.93	94.50	94.46	96.81	132.98	118.93	119.10				
Pacific Excl. Japan (242)	167.19	+0.1	138.85	128.57	121.20	141.22	+0.2	3.69	167.08	128.57	121.20	121.20	121.20	121.20	121.20	121.20				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
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World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27	144.68	116.18	138.41				
World Excl. US (1090)	128.33	+1.4	105.18	98.30			+1.1	2.84	128.33	101.94	96.36	96.31	101.27							



## AMERICANS

Notes	Price	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994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**LONDON SHARE SERVICE**[illegible]







# Weekend FT

SECTION II

Weekend September 19 / September 20 1992

The Long View/Barry Riley

## From Madrid to Maastricht



SELDOM CAN a British government's economic policies have collapsed so completely as happened this week. And seldom can the disaster have been so

richly deserved. The approach was wrong from the beginning. Only if the British economy had been aligned with its Continental counterparts before joining would there have been any great hope of permanent integration. Margaret Thatcher understood that with her "Madrid conditions", which were ultimately ignored. In the event the Treasury chose, in October 1990, a central exchange rate of DM2.36 which was intended to help depress UK inflation (then an alarming 10.9 per cent).

As I put it that month in this column: "We have entered the ERM as a refuge from the renewed burst of inflation and devaluation which would otherwise be inevitable."

The exit from the ERM threatens to bring about the kind of shock for savers which I warned about two weeks ago. Inflation over the next

year could easily be 6 or 7 per cent, wiping out High Street deposit returns net of tax even if money market rates stay at 10 per cent. Gilts have become substantially higher in risk, without the shelter of ERM membership.

The equity market predictably celebrated, and institutional fund managers will be relieved that they stuck to their heavy weightings of equities throughout the two years of ERM membership. During that period there was substantial outperformance by bonds, in sharp contrast to strong equity growth typical of much of the postwar period.

There were, of course, always doubts about John Major's timing and staying power over ERM entry. Perhaps the government might have hoped for better luck with German interest rates, although in late 1990 it ought to have foreseen

what might happen in the wake of unification.

But in the end the huge burden of personal and corporate indebtedness would surely have brought sterling down. The economic impact of this debt mountain is essentially what has triggered this week's U-turn, even more than the French referendum on Maastricht. The markets finally decided that the high interest rate strategy was impossible to sustain. In those circumstances to try to defend sterling with 15 per cent rates showed extraordinary lack of judgment.

Now we have to cope with the renewed burst of inflation and devaluation. It will not be at all pleasant. But a recession is the best time for a devaluation, and on balance we should be optimistic. A real disaster of economic decline and financial collapse was threatened by



the strategy which Norman Lamont was pursuing until Wednesday this week. Now there is an opportunity for a different chancellor to strike off in a new direction. There is an obvious parallel with the 1930s, when after devaluing in 1931 the UK achieved quite reasonable economic growth (and the stock market doubled between 1932 and 1936).

But the inflationary consequences will be significantly worse this time: there is no sterling area to

shelter us. Within the ERM we were still running an underlying inflation rate of about 4 per cent. We can forget about John Major's zero inflation, and about the 2 to 3 per cent to which we might have aspired if the sterling-DM parity had held indefinitely. Will we go back to the 6.9 per cent average of the 1980s or to the 10.3 per cent which was the average over the whole period of floating from 1972 to 1980? We cannot begin to guess until a new, independent monetary policy emerges.

There remains a danger that the debt burden that has forced the UK out of the ERM will force sterling much lower still. The quickest way to eliminate debt is by inflation. In 1975 nearly 20 per cent of the debt burden was got rid of in this way.

As for 1992, the Americans have cut short-term interest rates to 3 per cent and the UK is in much the

same economic and financial plight. With unemployment still racing ahead the political pressure to bring interest rates down will intensify. We shall not, however, be given any honest warning of an inflationary change of strategy: the official method of presentation is always that devaluation should be blamed on speculators (and possibly on malevolent foreign central bankers) but certainly not on the inflationary policies that caused it.

Our problems date back to long before we entered the ERM. Between 1984 and 1988 the UK enjoyed a prodigious economic boom during which gross domestic product rose by 15 per cent in four years to a level which will not be reached in 1992. The boom was largely fuelled by a debt explosion which continued into 1989 (when the annual increase in M4 lending

reached £90bn) and 1990; personal indebtedness in relation to income is still nearly twice as high as it was ten years ago.

The government has never had a credible policy for dealing with this problem, although with more than 1m families now financially wiped out by their mortgages it has at least begun to take notice. A rapid rise in nominal personal incomes would be the most attractive solution to many politicians.

However, although we have left the ERM this is not yet 1974 or 1980 revisited. The government has to sell a lot of gilt-edged to foreigners and will worry about the yield premium it has to concede over dollar or D-Mark debt. At home, depositors can easily switch into foreign currency accounts which might start to become very popular if sterling short-term rates are brought down a long way.

Ironically the Footsie Index jumped more than 100 points on the UK's ERM entry, then did the same when we left. There is precious little logic in that except that shareholders may think that the more often we move in and out of the ERM the better.

## The grim legacy of the 'witches' of Salem

THREE HUNDRED years ago on Tuesday an execution took place at Gallows Hill near Salem Village, Massachusetts, which has since haunted America's national consciousness. Seven women and a man were hanged for witchcraft, mainly on the evidence of a group of village girls who were apparently suffering fits and seizures after experimenting with the occult.

These victims turned down the chance to save their lives by confessing their guilt. Three days earlier 90-year-old Giles Corey had been crushed to death, with stones piled on his chest, for refusing even to plead before the special court set up to try these innocent people. Up to this point, 20 men and women, mostly humble people, had been executed at Salem.

This started an epidemic of denunciations and arrests in nearby towns, during which more than 100 suspects languished in makeshift jails. The Devil was abroad among God's people in New England, many of whom came to believe that he might deceive judges as well as witches.

Tourists who watch reconstructions of Corey's death (complete with recorded groans) at the Salem Witch Museum may see those events as belonging to a remote and primitive culture. Yet now thousands of people openly choose to be witches, attending covens and practising rituals. Thousands of books for children are about witches, either benign or terrifying. Horror movies bare their fangs at every other cinema and fill the video shops, while books and magazines on the occult proliferate.

Although this explosion of interest in Satanism is mostly ersatz, recent historical research is transforming our understanding of witchcraft in the Western past and often suggests more disturbing parallels with modern events.

It now seems that the most famous reincarnation of the witches of 1692, in Arthur Miller's powerful play, *The Crucible*, may be a misleading view of the true cause and significance of the witch hunt. For Miller, the victims of Salem stand for the individual conscience against theocracy and "the repressions of order", with explicit reference to the odious Senator McCarthy and his anti-communist crusade in the 1950s. Now, 40 years later, even more sinister parallels spring to mind.

Witchcraft is back among us with a vengeance when families are torn apart on charges of Satanic rituals supposedly

attested by their own children. In the UK, a series of ritual abuse cases were supposedly discovered by social service investigators in the Orkney Islands and then in Rochdale, northern England. These followed an epidemic of sexual abuse cases in Cleveland in 1987. In spite of obvious differences, these cases showed a strangely similar pattern to that in Salem three centuries before: intense questioning of children to produce the denunciation of adults; the inner certainty of interrogators that evil practices were widespread; passionate denials of guilt; and failures to obey the ordinary rules of evidence.

Miller focused on the principled defiance of theocracy by John Proctor, a man who, having fallen from grace through adultery with his maid servant, finally tore up the confession that would have saved him, thus gaining a moral victory over his persecutors. However, the true story of the hidden evil in Salem Village is more subtle and has only been apparent since the publication of a brilliant book by two young American historians, Paul Boyer and Stephen Nissenbaum, called *Salem Possessed*, which finally fitted the



visions which were held to prove that the accused had made pacts with Devil to take possession of their souls. Putnam and his family were the main supporters of Samuel Parris, minister of Salem Village, another man on the economic downslide. Parris's insecurities did much to fan the blaze of the witch hunt.

Thomas Putnam was a man with many grievances, much given to unsuccessful lawsuits. One alleged he had been

Mather, who was consulted about procedures for the trials, called: "Those errors whereby great hardships were brought upon innocent persons, and (we fear) guilt incurred which we have all cause to bewail with much confusion of face before the Lord." Puritans knew how to repent with a sincerity and force rarely shown by modern persecutors.

The persecution proved a disaster for its makers. Parris lost his position as minister and any hopes of personal

50,000 and 100,000 people were put to death as witches.

Between a fifth and a quarter of these were men, while midwives, always said to be especially vulnerable, were in fact rarely prosecuted. Educated witch-hunters played only a marginal role; they were probably no more representative of elite opinion than the zealous pursuers of ritual Satanism are today. Most witches went on trial because their neighbours, who hated and feared them, blamed them for specific misfortunes - usually the deaths of spouses, children or animals - following a quarrel. Behind it all lay not the clergy but their rivals, the local wizards and wise-women who functioned as witch-doctors and were skilled in making clients articulate their suspicions.

Population growth, economic change and harvest failures made the decades around the turn of the 16th and 17th centuries some of the harshest ever experienced by the ordinary people of Europe. It was natural that accusations should multiply, and this would not have mattered so much if the reaction had been confined to counter-magic and the occasional lynching.

Unfortunately, the pressure from below coincided with a temporary decline in elite scepticism. The reasons for this are complex, but it should be stressed that it was very relative. Critics of witchcraft prosecutions were numerous and soon became more vocal, as happened in Massachusetts. Accusations of diabolical possession were seen as particularly dangerous, for fraud was readily suspected and quite often detected. Another famous case was that of the Devils of Loudun in 1634, where a group of "possessed" nuns accused a local priest who was burned at the stake.

A sober look at witchcraft in history strips away almost all the pseudo-historical clothing in which the modern witch cults have tried to deck them-

selves. Some of their rituals and gods do have origins in pagan culture, but the witches' "sabbat", (a nocturnal Satanic meeting) existed only in the imaginary world of folklore.

It is striking that many of the most lurid accounts in witchcraft trials came from children and adolescents. This should be a reminder of the

danger of accepting their testimony in modern allegations of satanic practices. One does not care to think too long on the nine-year-old girl from Lorraine who told stories about going to the "sabbat" in a cart with her whole family, as a result of which her father, grandparents, uncle and aunt were all burned in 1602. In later years she might have whispered to her confessor

something akin to the moving words of Ann Putnam Jr. when she was admitted to church membership in 1706: "I desire to lie in the dust and be humbled for it, in that I was a cause with others of so sad a calamity to them and their families."

It is a poignant reminder that the real evil lies within ourselves, as much in the age of child abuse as in that of "demonic" possession.

Three hundred years ago 20 innocent people were executed in a frenzy of demon-hunting. Today, Salem's ghosts still haunt us, as Robin Briggs explains

jigsaw together.

As Miller partly understood, the central issues were to do with the nature of the community and the power struggle between individuals within it. Salem Village (now Danvers) was the agricultural hinterland of the thriving port of Salem, a dependent region lacking proper institutions and struggling even to create its own church. The community was split between those linked to the cosmopolitan, commercial world of the town and the poorer, less sophisticated farmers further inland. There were two rival families from the initial settlement: the Porters, who had grown rich from the town, and the Putnams, whose land was being subdivided among too many children.

The epicentre of the witch hunt lay in the house of Thomas Putnam, eldest son in the third generation. His wife and daughter were prominent among the group of "possessed" women. It was this group which gave the crucial evidence of witchcraft, partly to protect themselves against suspicions of satanic practices. They cried out in court that they had been tormented by the accused and described

cheated over his wife's inheritance, another - the vital one - was against his stepmother and his half-brother, Joseph. His father had left his best land to this favoured child of his old age, who had just married into the rival Porter family, and ostentatiously sided with them in local politics.

Although they were never directly accused, these treacherous relatives and the Porters were the real target for the family's anger. Almost every accused person in the Salem trials can be connected with them in some way, just as all the accusers were Putnams and their allies. It is highly unlikely that there was a deliberate conspiracy. Since the weak were attacking the strong, they could only do so in surrogate form - by imagining a diabolical conspiracy.

Resistance began to mount when charges extended to people of real substance. By the autumn of 1692, the leading Puritan ministers in the colony and the Governor intervened to halt the trials; those in prison were freed.

Over the next 20 years various acts of public penance would try to atone for what the Boston minister Cotton

recovery. Within a generation the surviving Putnams (other than the prosperous Joseph) had sold their dwindling property and left.

Witchcraft prosecutions had rarely been much favoured by the churches, and played little part in maintaining their authority, in either the old world or the new. So the analogy conjured by the modern term "witch hunt" - with the show trials of Stalin or McCarthy is weak. Similarly, the traditional witchcraft the colonists had brought from England bore little relation to modern imitations. This "old witchcraft" still exists in parts of rural Europe, where a belief that one is bewitched has been known to cause death. As recently as 1976 two brothers in Orne in France shot dead the male "witch" they blamed for their misfortunes.

Then, as now, the basis of witchcraft had little to do with formal religion. It is in a general sense pagan, with an immensely long history. By comparison, the persecution of witchcraft was brief; after a scattering of early trials in the 15th century, most executions in Europe took place between 1580 and 1630. In all between

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# FINANCE AND THE FAMILY - CURRENCIES IN CRISIS

London Markets

## The week investors scented freedom

By Peter Martin, Financial Editor

### SIX DAYS THAT SHOOK THE POUND

**Sunday September 13**  
Italian authorities announce that the Lira is to be devalued by 7 per cent against the D-mark. The Bundesbank says it will cut interest rates the following day. Norman Lamont welcomes both measures and confirms he will take "whatever action was necessary" to defend sterling's central rate at DM2.95.

**Monday September 14**  
London stocks soar as the FT-SE 100 opens up 99.5 at 2,470.4. Pound rallies from DM2.79. Bundesbank announces new interest rates - cut of 0.25 per cent in Lombard rate to 8.25 per cent, and of 0.5 per cent in discount rate to 8.25 per cent. Shares drop. FT-SE closes at 2,422.1 (up 51.2 for the day). Sterling closes 2 pence higher at DM2.8125, safely above the ERM floor of DM2.778. It stands at \$1.8545, compared with \$1.958 three days earlier.

**Tuesday September 15**  
Pressure on the pound resumes, following reports of comments by Helmut Schlesinger, Bundesbank president, that "there was room for no more" interest rate cuts, and that a more general realignment of ERM currencies (including a devaluation of sterling) would have been preferable. The Bank of England buys pounds in an attempt to support the currency, but by the close sterling stands at DM2.79 in New York. Its lowest since joining the ERM and one-fifth of a penny above the minimum permitted level. FT-SE closes off 52.1 at 2,370.0.

**Wednesday September 16**  
"Black Wednesday". Pressure on sterling continues. The FT-SE 100 drops 28 points at the opening. Bank of England buys £1bn, at 9am, with no significant effect, followed by intervention by the Bundesbank and Bank of France at 9.30.

Pressure on sterling continues. At 11am, UK base rates are raised by 2 percentage points from 10 per cent to 12 per cent. Within minutes, the FT-SE hits 2,291.3, down 78.7 for the day (its low for the week).

Sterling does not recover, even after Bank of England spends another £2bn. Pound falls below permitted level. It is announced that base rates will rise by another three percentage points to 15 per cent by the opening of trade on Thursday.

Pressure on sterling continues, but shares rally as dealers work on the assumption that a devaluation is imminent. FT-SE closes at 2,378.3, up 8.3 for the day, in spite of the increase in lending rates. The pound closes at DM2.75, well below its permitted level. At 7.45pm, Lamont announces that it has been a "difficult" day. Sterling's membership of the ERM is to be suspended, while the second base rate rise is cancelled. The pound moves lower.

**Thursday September 17**  
FT-SE opens 106 higher at 2,484.9 while pound continues to fall. However, shares fall back to register a gain of only 25.8, until the 10am announcement that base rates have returned to 10 per cent. The Cabinet accepts responsibility for the day and Lamont insists they have no intention of resigning. Meanwhile the French franc, Danish krone and Irish punt all fall to their ERM floors, amid further central bank intervention.

Stocks resume their surge. FT-SE 100 closes at 2,483.9 (up 105.8). Sterling stands at DM2.84 and \$1.7795 by lunchtime in New York - 4 per cent below its previous floor, and an effective 10 per cent devaluation compared with its original ERM central rate.

**Friday September 18**  
London stocks continue to rally. A modest opening rise is followed by buying in force once a radio interview with Lamont is interpreted as meaning that the pound will stay outside the ERM for some time to come. The market closes up 83.1 at 2,567.1, with analysts agreeing that a cut in base rates to around 8 per cent has been discounted. Sterling falls slightly, and the acrimony between Lamont and Chancellor Kohl, to stand at DM2.61 when the market closes in London.

**N**EW ERAS are the stock in trade of equity analysts and newspaper columnists. New dawn, crucial turning points, decisive breaks with history - they rest, shiny and inviting, on the well-stocked shelves of the Cliché Department.

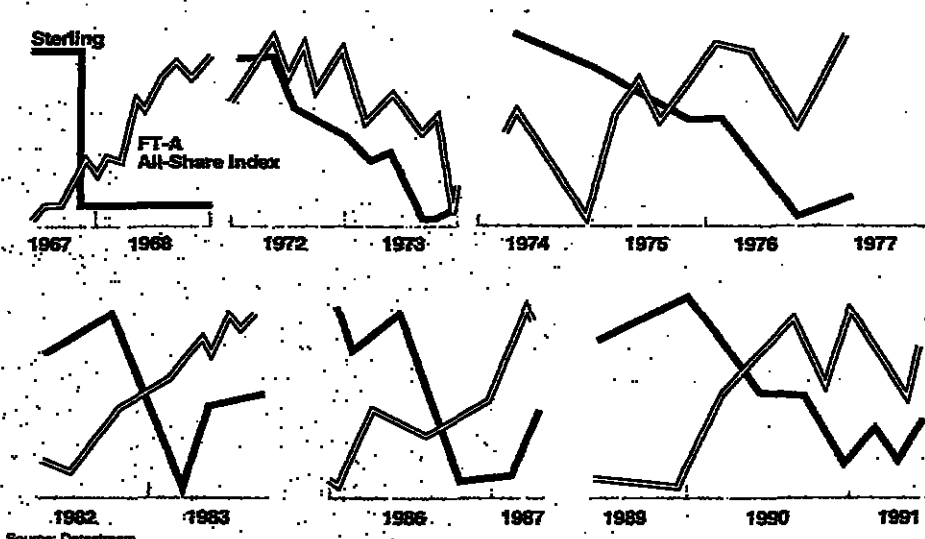
To have one new era in a 12-month period might seem enough, two surely excessive. Yet that is what we have been offered since last autumn. First, a new era of low inflation, low equity returns, and German-style investing patterns. Now, a second new dawn is promised, looking suspiciously like the dawn-before-last: falling interest rates, rising equities, and - ultimately - inflation-eroded fixed income securities.

The plausibility of this outlook is discussed by John Plender and other FT writers elsewhere in today's *Financial Times*. Whatever its merits, it had become a stock market article of faith by the end of Friday afternoon. The FT-SE index closed at 2,567.0, up 83.1 points on the day, and up 196.1 on the week. From Wednesday's low point of 2,391.3, at the moment when the government first put up interest rates, it had risen 12 per cent.

The completeness of the market's conversion to this view is borne out by the nature of the rally. You only have to run your eye down the list of sectors which did best on Thursday to get the measure of this particular new era: Contracting and construction up 12 per cent; Banks up 11 per cent; Metals and metal-forming up 10 per cent; Building materials up 9 1/2 per cent. These are the battered cyclical stocks, the worst sufferers from the recession of the past 2 1/2 years.

The shares that did worst out of the day's 100-point rise in the FT-SE index are also

As sterling declines .... how the stock market reacts



familiar: electricity and water utilities, the defensive stalwarts of the recent past. The electricity sector fell by 1/2 per cent on Thursday, the water sector by 2 per cent.

All self-respecting new eras must be born from the wreckage of the old. Traditionally, this process used to take several decades, giving plenty of time for *fin-de-siècle* musings and lavish quotations from that Yeats poem about things falling apart, centres not holding, rough beasts slouching towards Bethlehem, and so on. The pace of modern life, however, has reduced the shelf-life of the new era to a matter of months; and technologists are now working on bite-sized new eras which can be consumed between meals.

Although the collapse of the old era is now a swifter process, the scale of the wreckage has, if anything, increased. Consider the events of this week. On Sunday, the lira devalued. On Monday, there

was a small cut in German interest rates. The pound edged up, the stock market rose 51 points. On Tuesday, both reversed course, with shares down 52 points. On Wednesday, with the pound on the edge of the abyss, interest rates went up first to 12 per cent, then to 15 per cent. Each time interest rates went up the stock market dropped. But sterling was still falling, kept within its ERM band only by unprecedented central bank intervention. As that thought sank in, a vast electronic gale of laughter convulsed the stock market.

You could see it sweep across the Topic screens: share after share turned blue, indicating that the price was rising. The old era had reached its accelerated moment of crisis: no-one now believed that the policy of pushing interest rates ever higher to defend the pound was sustainable. The damage that 12, then 15 per cent interest rates had done to

equities was swiftly undone, and the market closed serenely up 8.3 points on the day. Given the scale of the drama, it was a remarkably unremarkable figure.

The next two days' share trading saw the acceptance of the new dawn, by the government as it dropped out of the ERM and by investors generally. Shares moved upwards in heavy volume, suggesting that some serious buying was taking place.

By the end of the week, with shorter-term interest rates indicating that the market was expecting something like a half-point cut in base rates in the not-too-distant future, the new era was in full swing.

City economists were calculating the impact of a low-interest-rate, cheap-money policy: equity analysts were coming up with lists of shares that stood to do well out of an escape from the strait-jacket into which the government had clamped the economy for the

past two years. From Bank to Edinburgh New Town, people were digging out graphs such as the one that illustrates this piece, which show that almost all recent devaluations have been followed by rising equity markets.

Once new-era fever strikes, history is bunk, historical statistics little better. Thus, the figures reported this week, depressing though they were, had little impact on the market's thinking. They illustrate the cage from which investors now hope to break free: rising unemployment - up in August to a five-year record of 2.8m, with a 47,000 rise on the day - together with flat order books and a stagnant money supply.

Two striking corporate events of the week were, arguably, relics of the old era. One of them dated from the era-before-last: a profits warning from Body Shop, the last of the high-performing niche retailers that had provided so much

excitement in the pre-recession era. Anita and Gordon Roddick, who run the company, announced that pre-tax interim profits would fall from £5m to "not less than £3m". The suggestion that the company's spectacular growth might be slackening sent its shares down 41 per cent on the day, and they closed the week at 181p, down 85p.

The other event was an echo of all that single-market euphoria of the past couple of years. (Indeed, in some respects it was a reversion to a pre-war concept: the Anglo-Dutch cross border merger.) Reed International, once a newspaper and newsprint group but now a magazine and business publisher, announced that it was merging with Elsevier, which publishes scientific journals and Dutch newspapers. The market had no doubt whose shareholders were getting the better of the deal. Reed shares rose sharply, ending the week at 541p, up 55p from the

moment of the announcement. Elsevier's closed at F1102, down 12 per cent.

Corporate news could scarcely grab the attention, however, when there were grand strategies to be drawn. After all, this week's new era might itself be outdated by the time the markets opened on Monday, depending on the outcome of the French referendum. For City analysts and newspaper columnists, there is much more scope for astonishing insights.

As usual, however, W.B. Yeats had the last word. In that very same poem that everyone quotes, obviously reflecting on a bruising experience with the Dublin traded options market, he gave his considered verdict on the trade of financial analyst. "The best lack all conviction," he mourned, "while the worst// Are full of passionate intensity."

And now they're on television, too ...

## What the Financial Advisers Say Patience is the virtue

**A**MID THE passionate arguments about the broader economy, personal financial advisers are reassuringly unanimous in the advice they are offering to savers. Virtually all of them warn that investors should be patient before reacting to this week's turbulent events in the financial markets.

"If the UK and the EC can't buck the market, I fail to see how the private investor can do so without an extraordinary slice of luck," says David Harris, of Chantrey Vellacott. "Therefore, if you haven't taken any precipitate action, you shouldn't." John Cole, of Berry, Birch & Noble, agrees. "We are advising clients in such difficult markets to sit it out for a day or two. Missing the bottom is less dangerous than going in and seeing your capital base reduced." A similar line comes from Peter Smith, of Hill Martin, who says: "The crisis has shown the difference between strategy and tactics. If you have the right strategy, you shouldn't be too bothered by one day's turbulence."

Still more caution comes from Peter Hargreaves, of Hargreaves Lansdown, who says that those with funds to invest should make fixed interest their first port of call. By this he means National Savings, gilts, and guaranteed income bonds. He is not totally negative about equities but he feels private investors should not try to make a killing because the timing is so difficult. He adds: "I always think the people who are pleased with equities are those who buy them slowly."

Cole takes a similar line. "We are looking out for fixed-interest opportunities; the international bond market has some attractions. We see the longer-term appeal of equities, but

we are attracted to the phased investment approach." Robert Noble-Warren, of Murray Noble, also is recommending fixed-interest products. But Noble-Warren is worried that equities will continue to go through a rough patch while economic instability continues, and so is removing some clients from zero-dividend preference shares of investment trusts.

These normally are regarded as very safe, but he now feels that the level of cover for their final redemption value might not be adequate in many cases. Instead, Murray Noble

**Philip Coggan and John Authers poll the pundits**

is buying those zeros which benefit from the strongest cover, plus guaranteed bonds, gilts and National Savings.

One adviser expects a very rapid decline in rates. Richard Boyton, of Boyton Financial Services, says: "I would expect to see interest rates declining to between 6 and 7 per cent within a very short term. Debt distress will remain high and credit relatively expensive when inflation is taken into account. As a result, credit demand will remain scarce, probably forcing interest rates lower in the long term."

"It is doubtful whether house prices will rise, as consumers will remain unwilling to saddle themselves with large house debts. The market still has considerable overhang from repossession," Boyton

concludes. "I believe we are entering a new era of risk-averse investment. This will favour bonds and gilts."

One real gilt enthusiast is Stephen Hallett, of Pentre-Vere, who says: "Gilts are as attractive now as a week ago, if not more so. The enormous deflationary pressure in the UK economy will take a long time to unwind and, if policy had been unchanged, it would have increased. Given the state of the economy, the little inflation that might be imported will only slow down the further build-up of deflation, let alone reverse it."

What about areas apart from investment? Smith points out that there are still very high real interest rates on borrowings and consumers should reduce any excess accordingly. Given the still-troubled UK economy, Smith adds: "People are less secure in their jobs and should make sure that their pensions are properly funded."

On mortgages, Cole thinks that a fixed-rate loan "does have a place around the 10 per cent level, especially those who are taking out a big loan. But he cautions: "I would personally expect interest rates to fall." Graeme Barnes, of Wilfred T. Fry, the Sussex-based firm which specialises in advising expatriates, says this week's developments have been good news for those with earnings in other currencies, or with sensibly diversified portfolios. For others who have kept their funds in sterling deposits, he recommends protection against falling interest rates by going into fixed-rate investments.

So the experts' view seems clear - just as at the end of last week, a portfolio with a large share of gilts and fixed interest, plus regular savings into equities, is favoured overwhelmingly.

## Serious Money Balance is the key

By Philip Coggan, Personal Finance Editor

**W**HAT ON earth is going on? That must be the understandable reaction of savers in a week when the pound has plummeted, share prices have soared, and interest rates have done both.

Early in the week, newspaper headlines proclaimed that mortgage rates were about to fall; on Thursday morning, the press pronounced that rates were sure to rise. In fact, they have yet to move one jot. Faced with this turmoil, the temptation must be for the investor to see the markets as an incomprehensible casino, and to retreat into the apparent safety of the building society.

For those who depend on their savings for income, that might prove a dangerous strategy. So much has happened that no-one can be confident about what the government will do next. There is the remote chance that the government, like a punchdrunk boxer, will climb back into the ERM ring for another bout with the markets.

Political pressures, however, would suggest that the government would make the best of the crisis. Norman Lamont seemed to hint as much yesterday when he essentially said that Britain would only rejoin the ERM when the Germans got their act together.

The recession was prolonged because interest rates were kept high to defend the pound; now that the currency battle has been lost, why not cut rates and revive the economy?

The cynic might suspect that base rates will be cut as a morale-booster before the Tory conference. Such a policy change will probably be highly popular.

For most people, the benefits of ERM membership were somewhat theoretical: 15 per cent interest rates would not have been a "price worth paying" for small businessmen or homeowners.

With inflation at 3.6 per cent, a base rate cut to 8 per cent would still leave real rates at historically high levels; and it is always possible that rates could fall to 6 or 7 per cent. That would be very good news for anyone with a variable rate mortgage.

Savers should recognise that we could be seeing a return to traditional British values: a falling pound, higher inflation and isolation from Europe.

Traditional investment strategies are, thus, likely to be successful once more. The prospect of the low-growth, low-inflation decade has been postponed. The cult of the equity might not be over.

Shares have traditionally been the best performing financial asset over the longer term; far better than gilts or building society deposits.

The rally in equities on Thursday and Friday highlights the hopes that the conditions of 1982-3 might be repeated; a falling pound helping British companies to escape from recession and improve profits.

However, the surge in the market also means that the investor might be better placed investing in shares via a savings scheme than jumping into the market on Monday.

If the pound continues to fall, then overseas investments, from buying the bonds of those countries which continue to track the anti-inflationary D-mark or, if you believe in the resurging dollar, US

Treasuries. The more adventurous might look at overseas equities. This week GT, the fund management group, held an emerging markets conference which highlighted the attractions of shares in areas such as Asia and Latin America; and Fund Research launched a new guide to the funds which specialise in those areas.

The recession may limit inflation in the short term. But its probable long term resurgence highlights the need for investors to hold assets such as index-linked gilts and National Savings, which currently offer very attractive real yields.

What about conventional gilts? Prices could rise in the short term. Yields, at 9 per cent, are well above inflation; and short-dated prices should rise as interest rates fall. But, in the long term, higher inflation would be bad news for gilts, and devaluation will make foreign investors wary of buying our bonds. Furthermore, the government still has plenty of gilts to issue, because of the growing budget deficit.

The greatest problems will be faced by those who have been relying on high building society rates for their income. They face the dual squeeze of falling interest rates and a rising inflation rate.

Of course, devaluation is not really an easy option. It is the same policy that Britain has followed consistently since the second world war, and it has led to the ruin of many generations of savers.

This week's events have re-emphasised that savers cannot survive on deposits alone; they need a balanced portfolio, including equities and index-linked, to protect them from inflation.

Wall Street

## Foreign furore downgrades domestic data

**W**HILE Europe has lurched from currency crisis to crisis this week, Wall Street has watched with baffled, and slightly superior, fascination. It has not, of course, been entirely immune to the ructions overseas. New York's currency trading desks have been frantic - especially in the afternoon sessions. "It's absolutely crazy," yelled one Merrill Lynch trader on Wednesday afternoon.

But, for the most part, Wall Street's interest in the currency mayhem can be summed up in two questions. First, does this mean lower interest rates in key European countries which, in turn, might speed another domestic easing by the Federal Reserve? And will the chaos affect economic growth rates in Europe - which, again, might have a knock-on effect for US manufacturers?

At the beginning of the week, the answers looked simple. The cut in German interest rates was read as unequivocal

bly positive for the US economy. Wall Street traders were already betting on another lowering of domestic interest rates by the Fed, after the latest data on producer prices gave no hint of an inflationary problem. Lower German rates would merely make the Fed's task a little easier.

And, reassured investors, the German interest rate cut might also stimulate European economies, helping the fortunes of US companies with large overseas markets. Share prices duly soared on fairly heavy buying by both institutional customers and private investors. The Dow Jones Industrial Average ended the day more than 70 points higher.

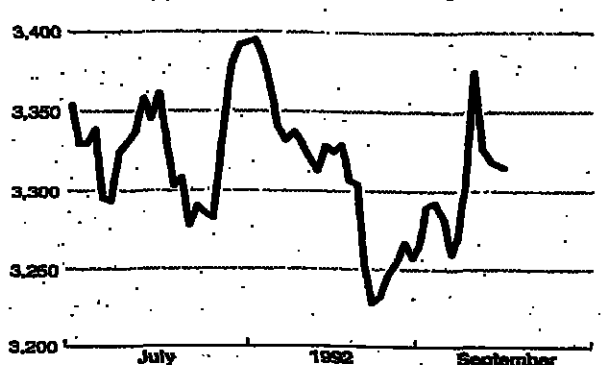
Such euphoria did not last long. By Tuesday, Wall Street

had realised that the modest German cuts were unlikely to spur a more widespread reduction in European interest rates at least in the short term. Disappointed, the Dow gave up almost 50 points.

Then, on Wednesday, traders grappled to make sense of the British moves to defend sterling, and currency's subsequent suspension from the exchange rate mechanism. In the confusion, the Dow itself eased only modestly, but many of the American depository shares of European companies encountered sharper mark-downs.

There matters rested for the rest of the week. Faced with all the uncertainties in Europe ahead of the French Maastricht vote, and a "triple witching"

Dow Jones Industrial Average



on Friday - when options and futures on stock indices expire on the same day - investors were disinclined to do any

thing. Given the week's overseas focus, domestic data largely was overlooked. Not that the

latest round of economic statistics revealed much that was new. The poor performance of the retail sector during August had already been evident in returns from the major department store chains, and the official 0.5 per cent fall in retail sales last month was merely confirmation.

The store chains had been quick to blame the relatively late Labor Day weekend, which, they claimed, delayed some of the back-to-school spending. Still, the overall slip in sales last month is the biggest drop since March. At the very least, it snuffs of minimal consumer confidence.

Similarly, news of an 0.3 per cent increase in consumer prices in August brought no gasps of alarm. Higher food

prices, notably for fruit and vegetables, accounted for part of the rise while the smaller 0.2 per cent increase in the "core" rate (which excludes food and energy) was unchanged from the previous three months.

Finally, on Thursday, the industrial output figures showed a decline of 0.5 per cent in August. That resulted, in part, from the disruption caused by Hurricane Andrew and the labour dispute at one of General Motors facilities which caused other plants operated by the car manufacturer to shut-down. But the obvious lack of economic momentum was reinforced by a separate Commerce Department report which showed that businesses increased stocks by just 0.1 per cent last month. Normally, a

significant rebuilding of stocks, is one of the early signs of economic recovery.

Even individual stocks had difficulty in grabbing much of the limelight. Federal Express, the biggest overnight package delivery firm, garnered some attention on Wednesday after revealing a sharp drop in first-quarter profits caused by weak domestic demand and fierce discounting tactics. Its shares slumped 3 1/2 to \$36 1/2, and, by Friday, had slipped to \$34 1/2.

Procter & Gamble, the large consumer goods producer, fared better when it announced that it was pulling out of the 100 per cent fruit juice market by discontinuing or selling brands. P&G shares gained 1/2 to \$48 1/2. But, for once, Wall Street was almost a backwater.

**Nikki Tail**

Monday	3378.22	+ 70.88
Tuesday	3327.52	- 48.90
Wednesday	3319.21	- 8.11
Thursday	3316.70	- 3.51



## FINANCE AND THE FAMILY - CURRENCIES IN CRISIS

## Mortgages

## A big sigh of relief

IN THE wake of Wednesday's events, the reaction of those in the housing market has been to heave a sigh of relief - first, because we have been spared the catastrophe of mortgage interest rates at 15 or even 16 per cent and, second, because interest rates may now fall.

Not everyone is euphoric. Fixed-rate mortgages at 10.4 per cent no longer have the glitter that they had on Wednesday. Those who dashed into Abbey National branches then to convert their mortgages into fixed rates of 10.35 per cent for seven years must now rue their decision.

Peter White, chief executive of Alliance & Leicester, the UK's fourth-largest building society, summed up the feelings of many lenders when he said that "if the outcome of Wednesday is indeed lower rates, it has all been quite good news for the housing market."

A few lenders have already begun to offer mortgages with interest rates fixed below 10 per cent, and there will be a lot more of these in coming weeks. National Counties building society, for example, is offering a mortgage fixed at 9.75 per cent till September next year and then at 9.95 per cent for a

further year. But I wonder if they will find many takers.

Many economists believe base rates could fall to 8 per cent by Christmas, which would mean a mortgage rate of around 9 per cent. If building societies continue their attempts to stimulate the market, rates for first time buyers would be even lower.

It is, however, too early to judge how far interest rates may fall, and the housing market is in such a mess that, whatever happens, it will take a good while to recover.

Building society chiefs have been saying privately that September 1992 is the worst month they can remember in the property market. Even re-mortgage activity has virtually dried up. Meanwhile, house prices have continued to fall and 305,000 borrowers are more than six months behind with their mortgage payments.

A sharp cut in interest rates, if it happens, might restore some consumer confidence and draw buyers back into the market, but the supply of houses for sale is likely to outstrip the number of buyers for months. Also, a partial recovery in the housing market may not be good news for homeowners with serious mortgage arrears.

One reason why lenders have shown so much forbearance this year to those in trouble with their payments is that there was no point in putting even more houses on the market under present conditions. When the market improves, we shall see if lenders remain as sympathetic to their struggling mortgage customers.

A further snag is that there will be very few 100 or 95 per cent loans around for first time buyers. The collapse of the mortgage indemnity guarantee market means that most would-be home-buyers will have to find a chunk of cash if they want to enter the housing market.

For the short term, the prospect of a fall in rates might deter many would-be buyers from entering the market. "People should stay calm and not take any decisions hastily. We do not yet know how things are going to settle down and it is too early to be very optimistic. The housing market's problems are so big that they are going to be with us for some time yet whatever happens," says John Wrigglesworth, a housing finance specialist at UBS Phillips & Drew.

David Barchard



When the roof fell in... City currency traders had a Wednesday to remember

## Fixed Interest

## Gilts may glister

INVESTORS could be allowed a hollow laugh at the phrase "fixed interest" after the events of the past week. But the attractions of an unchanging interest rate are understandable.

The basis of most fixed interest products in the UK is the conventional UK government bond (gilt). These can be invested in directly, via forms at your Post Office, or through a gilts unit trust, which will charge more but brings the benefits of professional fund management.

Gilts pay a fixed rate based on their original price of 100p.

but the return to investors depends on the trading price. A gilt originally yielding 5 per cent will yield 10 per cent for someone who buys it for 50p.

Gilt prices were affected by two issues this week: the prospects of base rate cuts, and of higher inflation. The former boosted the prices of short dated gilts, while the latter depressed long dated prices.

Simon Briscoe, of Midland Montagu, says: "Looking at a horizon of two or three years, I think the 9 per cent yields on offer at the moment will look very attractive."

Actuaries managing guaranteed income bonds have in many cases withdrawn from offering any rate, and are awaiting the result of the French referendum.

John Authers

## Savings Rates

IN THEORY, investors in variable-rate deposit accounts linked to the UK money market stand to come out of the crisis worst.

Sterling is weaker, and the market is already assuming that a base rate cut is to come. If base rates fall, interest rates for savers are bound to drop.

Savers cannot expect any preferential treatment either - the housing market is in such difficulties, with arrears and repossessions mounting, that the priority of banks and building societies will be to help borrowers first.

However, Anna Bowes, of Chase De Vere's Money Line, said no cuts to savings rates had been made by the end of the week as the institutions waited for the French vote.

For a minimum deposit of £250 it is still possible to earn 10 per cent gross from Scarborough building society's instant access account - not far short of three times the rate of inflation.

A gross rate as high as 11.75 per cent is available to those who put £10,000 or more into a Chelsea building society 30-day account.

Tessa rates have tended to be higher than those on normal accounts, with some still over 12 per cent.

John Authers

## Winners and Losers

## Buyers take care

DESPITE the stock market's euphoric reaction to sterling's devaluation, and the assumption that interest rate cuts will follow, buyers were selective in the shares they picked. There will be an immediate boost to the profits of companies with overseas operations, because of the effect of translating their foreign currency profits at a lower sterling rate. Groups such as Lloyds, Unilever, Tesco, Inspec and Siebe make high proportions of their profits abroad.

A lower rate for the pound also helps exporters, although this effect is mitigated by the recession in many countries which normally buy from the UK. Big exporters include Guinness, British Aerospace and De la Rue.

Sterling's fall also makes imports more expensive, so companies which are competing with imports - for example, textiles produced in cheap labour areas - will have some of the pressure removed. Costs

Vivella shares jumped because of its high foreign exposure and improved competitiveness at home.

Losers were companies with overseas exposure, like stores and food retailers, water and electricity companies, life insurance and banks. Some were losers on other grounds.

Throughout the recession, investors have concentrated their portfolios on defensive shares: those which would fare better in hard economic times. These include food retailers, utilities like water and electricity, and drug companies. Now, the situation is reversed. The market is looking for a resumption of economic growth and is pushing up the shares of cyclical stocks which would do best from recovery.

Thus, companies in the building sector saw their shares rise while the expectation of lower interest rates also helped lower interest rate groups such as MFI Furniture and Dixons which sell household goods

Maggie Urry

## Index Linked

## Inflation-beaters

IT SEEMED that Britain faced a decade of low inflation. But sterling's effective devaluation means that inflation might return, as the lower pound forces up import prices. How can savers protect themselves?

The two obvious investments are index-linked National Savings certificates, and gilts. The former offer a tax-free rate of 4.5 per cent, plus inflation, if held for five years. So, if you assume that inflation will average 5 per cent between now and 1997, the certificates will return a tax-free 9.5 per cent. But if you surrender them within five years, you will not get such a good return.

Index-linked gilts are rather more complicated but can offer protection over a longer term - one issue does not mature until 2030. The repayment value is based on the change in the retail price index (RPI) between the time of issue and the date of maturity. (For technical reasons, a date eight months before issue and maturity is used for indexation purposes).

Thus, if the RPI rises from 100 to 200 over the life of the gilt, it will be repaid at double its issue price.

In addition, a small income is paid very year - normally 2 or 2.5 per cent - which also increases in line with the RPI. Because of these complications, the small investor cannot know for sure what the actual return to maturity on an indexed gilt will be. You can only work out the real (after inflation) return; on long-dated issues, that is now more than 4 per cent.

With conventional gilt yields at more than 9 per cent and inflation at 3.5 per cent, it might seem that a fixed-rate gilt offers a better real return. But the bulk of the return from an indexed gilt comes from capital gain, which is tax-free.

Buying most conventional gilts means receiving the bulk of the return in taxable income. Higher rate taxpayers might, therefore, find index-linked particularly attractive.

Philip Coggan

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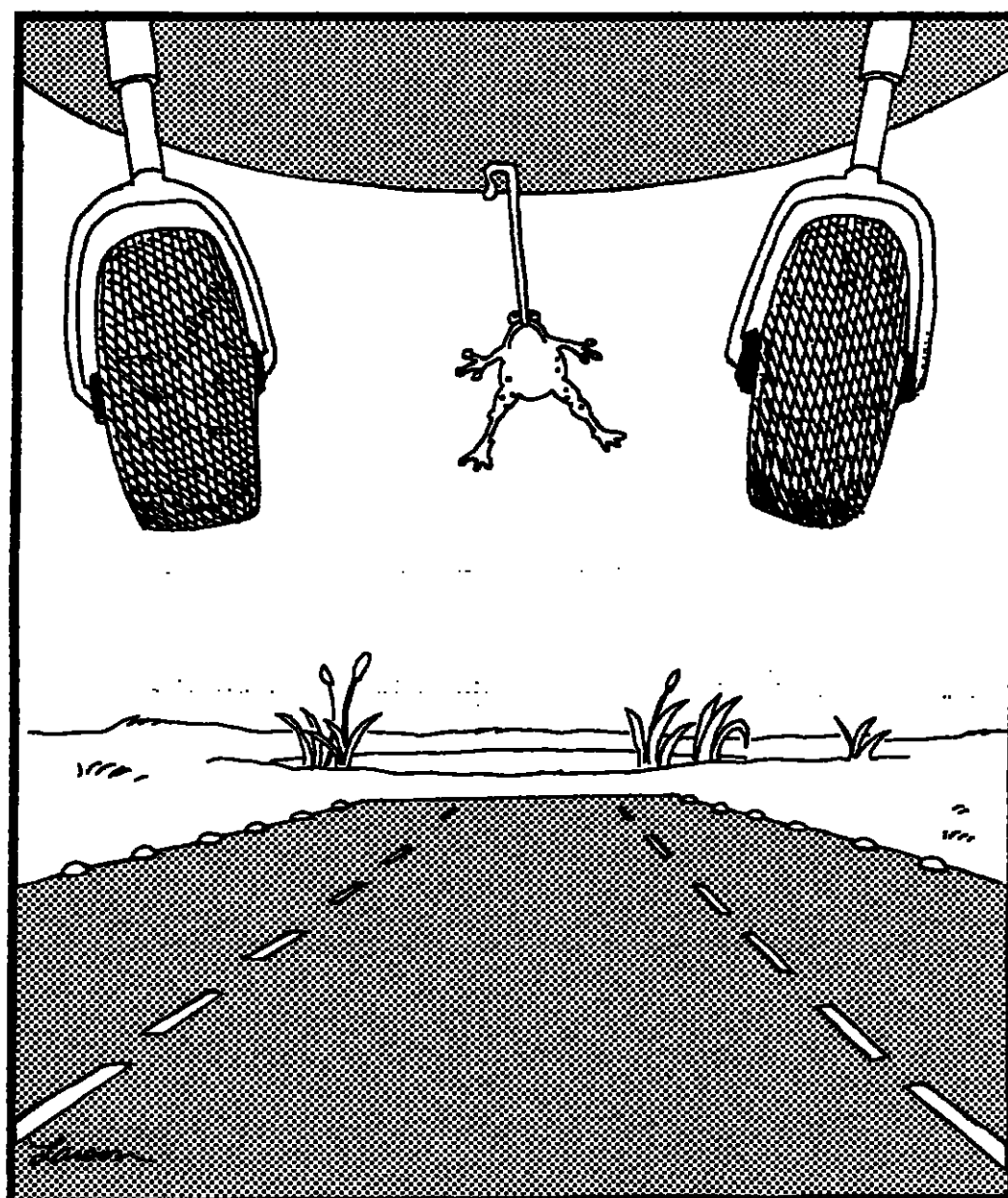
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Premium Bonds are sold subject to the terms of the Series B prospectus. We give three months notice of any changes to the prize structure and the underlying interest rate that makes up the prize fund (at present this is 6.5%pa tax-free).

If you buy by post, once we have accepted your application we will send you your Premium Bond together with a copy of the prospectus, normally within a month. The purchase date will be the date we receive your application. If on receiving your Premium Bond and prospectus you wish to cancel your purchase tell us in writing within 28 days and we will refund your money. Your Bond will go into the prize draws after you have held it for three full calendar months.



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1 Do you already hold Premium Bonds? (Please tick) Yes ☐ No ☐  
If yes, please enter your Holder's Number

2 Amount in words \_\_\_\_\_ pounds £ \_\_\_\_\_  
3 M \_\_\_\_\_ Surname \_\_\_\_\_  
(Mr Mrs Miss Ms)  
All forenames \_\_\_\_\_  
Address in full \_\_\_\_\_  
Postcode \_\_\_\_\_ Date of birth (essential for under 16) \_\_\_\_\_  
Day \_\_\_\_\_ Month \_\_\_\_\_ Year 19 \_\_\_\_\_

4 I accept the purchase will be subject to the terms of the Series B Prospectus.  
Signature \_\_\_\_\_ Date \_\_\_\_\_

5 If buying for a child under 16, give name of parent/guardian:  
M \_\_\_\_\_ Surname \_\_\_\_\_  
(Mr Mrs Miss Ms)  
All forenames \_\_\_\_\_

6 If buying for a grandchild, give name of the parent/guardian above and your own name and address below.  
M \_\_\_\_\_ Surname \_\_\_\_\_  
(Mr Mrs Miss Ms)  
All forenames \_\_\_\_\_  
Address \_\_\_\_\_  
Postcode \_\_\_\_\_

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\* Source Xmas February 1991 - February 1992



## FINANCE AND THE FAMILY - CURRENCIES IN CRISIS

What they say - and what they mean

## Shedding a light on murky times

Economist Giles Keating gives an infallible guide to the future...

PRIVATE investors, not to mention professional ones, may well be confused by the events of the last few days. This guide to the events of the next few weeks will help to shine a light through the murky.

Ireland, Portugal, Denmark and France issue vehement denials of any intention to devalue. Get a large bank loan in pounds, escudos, krona or French francs and invest it all in D-marks.

The French narrowly vote No in tomorrow's referendum. Other people may be selling, give them a little time to drive down prices, then move in and buy (some) UK stocks, buy gilts, buy European equities. A No vote would destabilise what is left of the ERM and force the French franc out of its band. John Major could pretend that the whole thing was a D-mark revaluation, not a sterling

devaluation, and pop the pound back into the ERM. Even Schlesinger would be happy enough to cut interest rates.

Result: UK interest rates fall, though not very far, and the political crisis is defused. The losers are companies heavily dependent on UK domestic demand, because interest rates on this scenario would come down less than in a free float.

The French vote Yes: France might get away without devaluing - Major and Lamont will have lost their chance of slipping sterling quickly back into the ERM behind the flag of a general realignment. The pound will go its own way for months, if not years. The UK can set interest rates mainly to meet domestic needs. So buy equities, but do not get too enthusiastic. The government is still keen to tackle inflation, so the interest rate cuts will not be very generous unless the economy

turns down further.

One of the UK's largest and oldest car plants shuts down with massive job losses: Buy shares in Toyota, Honda and Nissan. Old factories with 1960s-style working practices would be uncompetitive even if the rate was DM2 to the pound. The Japanese plants in Britain would be profitable with ster-

"suspended" because it was in at the wrong level. It left because of whispering by the Bundesbank about realignments, and because the increase in UK rates was not matched by a cut in German rates. The same can happen again, unless German rates fall sharply, or unless (not very likely) the ERM rules are

*'Even if rates are cut by 1 or 2 per cent house prices will still go down'*

ling at DM3.50.

Sterling rejoins the ERM, but the Germans do not cut interest rates. The Chancellor has already said this is unlikely, and he is right. Even at a parity below DM2.95, why should ERM membership be any more sustainable than before? Sterling did not leave the ERM on Wednesday (sorry, get

changed to force the Bundesbank to support sterling properly at the time of crisis.

The Chancellor announces a big support package for the housing market: Sell your house. You will have to slash the price. Then move into rented accommodation. There has just been a private meeting at No 11 Downing Street at which the chairman

of the biggest building societies told the Chancellor how bad things really are.

Even if base rates are cut by 1 or 2 per cent, house prices will still go down, because consumer confidence is so low and debt burdens so high. Remember the last attempt to stimulate the housing market, by suspending stamp duty in late 1991 and the first half of this year?

The government gives in to Tory backbencher demands for much, much lower interest rates:

Yet another U-turn, so this is quite likely. Buy equities, but do not hold them too long, but above all buy into dollars, D-marks and yen, in fact anything you can lay your hands on that is not sterling. In spite of the UK's deep recession, a big enough fall in the pound will generate some inflation. So a few index-linked gilts might be a good idea, too.

You might even consider

buying a house...

Unemployment rises and retail sales fall sharply in both the UK and the US:

In this case hold only big blue chip shares, and even then try to chuck out the ones with too much domestic business. There is not going to be a "normal cyclical upswing" - at best it will be weak in the UK, the US and Europe. The only areas of the world set for good growth in the next year or so are places like South China and Mexico. You do not have to buy directly into their stock markets, instead go for the big global corporations that have operations in those areas.

The French vote No by a wide margin and the whole ERM collapses:

The TV screens are filled by economists saying how good flexible exchange rates are, but investors should be very cautious. This is a signal from the big European nations of a complete inability to co-operate, which is very dangerous at a time of high debt, high unemployment, and creeping protectionism. If you want a scenario that points towards a new Great Depression, this is it.

Giles Keating is director of economics at Credit Suisse First Boston.

## The Week Ahead

THE BIG results event of next week is on Wednesday when British Aerospace reports. It is the one chance for John Cahill, the distressed group's new chairman, to clear the decks and produce - as he has promised - a solution to the company's regional aircraft problem.

At the interim stage a year ago BAe unveiled a sharp fall to pre-tax profits of £86m (£146m) and a £432m rights issue. Whatever profits it shed out in the first half of this year will be swamped by restructuring costs which could approach £750m.

Next week will bring more results from the battered construction sector. The reported profit or loss at Tarmac on Tuesday and Costain on Wednesday will be less interesting than the news on the restructuring efforts essential to their recoveries.

Tarmac will probably report an interim loss of about £14m (pre-tax profit of £18.2m, itself a sharp decline from the previous year) and a dividend of 2p (3p). Provisions are likely on the value of its land bank and for restructuring costs. Investors are also anxious for news

of a buyer for Roonwaste, the UK waste management business.

Costain might make a minimal profit of around £1.5m (£5.7m) but it too needs to take some hefty provisions. Partial flotation of its Australian coal business has yet to be finalised but should generate a much-needed £45m or so. But the shareholders will want to hear of further restructuring plans, the house builder, took its pain in 1991 with a loss of £106m. For the year to June it should report a profit of up to £7m and perhaps a modest dividend. It is back under the management of Sir Lawrie Barratt, its founder, but is suffering from the margin and volume reductions of the housing market. Given the prospect for lower interest rates, Sir Lawrie will probably be even more optimistic than usual.

Laura Ashley, the fabrics and frocks group is likely to report a small interim pre-tax profit of £1.5m (£38,000) on Wednesday as its energetic chief executive Jim Maxam continues to press ahead with his corporate changes.

## The Fund Managers' View

## 'Come back inflation, all is forgiven'

PROFESSIONAL fund managers who saw interest rates and stock prices gyrate wildly this week are still pausing for breath.

David Rough, investment director at the UK insurer Legal and General, urged caution before taking a view on stock or bond markets. "I'd be a lot happier if I knew exactly what the government's policies are," he said.

If the government has decided to allow a decline in real interest rates - the difference between inflation and bond yields - the overall picture could be good for equities. But, if the decoupling of sterling from the ERM is a temporary affair, and John Major is still aiming for zero-inflation growth, the picture could be very different.

"After the French vote (on whether to ratify the Maas-

tricht Treaty) on Sunday, I think we will have a clearer idea," Rough said.

But with stock prices up 8 per cent in two days, fund managers are queuing to jump on the equities bandwagon. "The move to deflate sterling is very bullish for equities," said Hugh Sloane, investment director at GT Management. "Now that sterling has been floated there is a good chance that the UK can move out of recession."

Already, GT Management has decided to increase its weighting in UK equities from 50 per cent of its total portfolio to something comfortably above that, he said.

GT Management wants equities of companies with large overseas earnings which, with a weak sterling, will produce hefty increases in revenues.

Shares of companies which are well-placed to benefit from a pick-up in the UK economy look attractive.

The banking sector is likely to benefit as lower interest rates ease pressure on hard-pressed borrowers who may be facing repayments difficulties.

Simon Walters, investment director of Save & Prosper, says that a watershed occurred on Wednesday when Britain withdrew from the ERM. "The restrictions of the ERM have vanished. Come back inflation, all is forgiven." The result is good news for equities, he argues, and cyclical, high-yielding stocks have already started to outperform.

However, the market has already risen to reflect one and probably two percentage points off base rates. If that fails to happen the market may be disappointed.

Nevertheless, Walters is looking forward to an export-led boom and he also believes there could be a psychological boost to the consumer sector if rates drop back into single figures.

Michael Hart, joint manager of Foreign & Colonial Investment Trust, says it has benefited this week from its big overseas currency exposure.

"If the French vote Yes, I wouldn't be surprised to see UK rates coming down another notch," Hart says.

"Given the sharp rally in UK shares, there's no need to renege on the stock market at this level; we've been nibbling away at lower prices. But we've always been enthusiasts for equities and some institutions may be having second thoughts about their recent move into bonds," Julian St Lawrence, a UK

fund manager at Framlington, says that "We'd be more cautious than the markets about the speed of interest rate changes, and thus we could see a correction to the recent rise."

"Nevertheless, equities have offered a pretty low return over the last few years, and are down in real terms from their peaks of 1987. And we are particularly interested in small and medium-sized company shares, which have some catch-

ing up to do."

St Lawrence warns that devaluation will lead to higher prices. "We would be surprised if the previous rule of thumb did not apply this time - that a 10 per cent devaluation leads to 10 per cent in inflation spread over a three to four year period."

Norma Cohen and Philip Coggan

## COMPANY NEWS SUMMARY

## TAKE-OVER BIDS AND MERGERS

Company	Value of bid	Market share	Price	Value of bid	Market share
Blystad	5.4	41%	41%	7.50	Abbott Hidge
Continuum Star	40*	38	34	6.00	Prostateprint
Gibbs Mew	200*	188	183	11.00	Stierley Inv

\*All cash offer. \*Cash alternative. \*For capital not already held. \*Unconditional. \*Based on 2.50 pence per share 18/9/92. \*95Shares & cash.

## RESULTS DUE

Company	Announcement date	Last year	This year
		Int.	Final

Company	Announcement date	Last year	This year
		Int.	Final

Company	Announcement date	Last year	This year
		Int.	Final

Company	Announcement date	Last year	This year
		Int.	Final

Company	Announcement date	Last year	This year
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Company	Announcement date	Last year	This year
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Company	Announcement date	Last year	This year
		Int.	Final

Company	Announcement date	Last year	This year
		Int.	Final

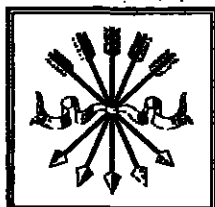
Company	Announcement date	Last year	This year
		Int.	Final

Company	Announcement date	Last year	This year
		Int.	Final

Company	Announcement date	Last year	This year
		Int.	Final

Company	Announcement date	Last year	This year
		Int.	Final

Company	Announcement date	Last year	This year
		Int.	Final



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## FINANCE AND THE FAMILY

Diary of a Private Investor

## A guide to good companies

Kevin Goldstein-Jackson outlines his system for deciding whether to buy shares

**A**S A PRIVATE investor, I have already made use of the FT's new company reports service and found it fast and efficient. For just the cost of an ordinary phone call, I can receive a copy of a number of company reports.

Further details are given on the FT share price pages, where companies for which reports are available are marked with an asterisk.

Unfortunately, only 130 companies have so far availed themselves of this service, but I hope this number will increase in the near future. I would particularly like to see more small to medium companies on the list: the more interest taken in them, the more marketable their shares might be.

In these difficult and uncertain economic times, however, I remain very wary about further stock market investment. It has to be a pretty good company to attract my money.

I am, therefore, using a marking system when looking at company reports in order to decide if further investigation – and possibly investment – might be warranted.

Under my system, each company starts with 100 points. I then flip through the pages of the report. If I see more than one photograph of the chairman, I deduct five points. If the company has just moved to an expensive and luxurious new head office building, 15 points are deducted.

I then look at the chairman's statement. Has he given a profit warning? Perhaps shrouded in words like "trading is proving difficult" or "we are well placed to take advantage of conditions when the current recession ends"? If so, I deduct 20 points.

(The reason I deduct only 20 is that, theoretically, by the time the report has been published, the market ought to have adjusted to take account of the chairman's views and analysts' comments.)

Also, a number of chairmen are unaware of the true state of their company – or wish to



conceal it – and so do not reveal as much as they might. So, as an indication of prospects, the chairman's statement has to be viewed with some caution.

I then look at the list of substantial shareholders (those owning more than 3 per cent of the company's ordinary share capital). If the list contains no signs of any respected City institutions or major personal shareholdings, I deduct 10 points.

Do all the executive directors own shares? Five points are deducted for each one who does not.

Is the company in a niche market with very little competition or the owner of undervalued brand names? If not, I deduct 10 points. Is the company proposing a change in the date of its year-end? If so, 15 points are deducted.

It is the accounts of the company and, more importantly, the note to the accounts, that can cause most points to be lost: 75 are deducted if gearing is more than 100 per cent.

If the company capitalises

interest, 15 points are deducted. If the short-term borrowings are greater than the long-term, the penalty is 25 points.

A further 15 are lost if the company has a large amount of borrowings in certain foreign currencies where changes in the exchange rate could prove costly.

Have there been any changes in the method of valuation of stocks? If so, and the effect of this is to increase stock values significantly, then 20 points are deducted.

Even without a change in valuation policy, there will be a further penalty of 20 points if stock levels/values have increased considerably over the previous year. I would be concerned the company might not be able to find buyers for all its products stockpiled at profitable prices.

Has the company sold assets to companies in which it also has a large shareholding, and attributed large profits to such asset sales? If so, I deduct 60 points.

Has the company engaged in

a number of deals where deferred consideration is payable? If so, 15 points are lost.

If the company has changed its depreciation policy by considerably extending the depreciation period of plant and equipment, then 15 points are deducted.

Is the pension scheme fully-funded? If not, I deduct between five and 15 points depending on the amount of under-funding. If the scheme is over-funded and the company is having a pensions "holiday", five points are lost.

Does the company have any contingent liabilities? If so, then five to 30 points will be deducted depending on their size and nature.

Does the company have a good cash flow? If not, 25 points are removed. And a further 15 points are lost if the company does not have a healthy amount of cash on deposit with reputable banks.

Do the accounts contain a statement along the lines of "The open market value of the company's freehold properties is substantially in excess of the

book value?" If not, I take away 10 points.

Have the auditors qualified the accounts of the company? Depending on the nature and number of such qualifications, 20 to 80 points will be deducted.

If staff costs have increased considerably over the previous year, then 10 points are deducted; and if the directors have had considerable salary increases while the profits of the company have fallen, then a further 10 points go.

If the net asset value of the company is not more than its current market capitalisation, I deduct 10 points.

Of course, I also look at the profits of the company. But, again, by the time the report is published the market ought to have adjusted the company's share price to take account of reduced or increased profits. On some occasions I may, therefore, not deduct any points for reduced profits.

Any company that has lost all its 100 initial points (or more) will not, in present circumstances, be considered by me for investment.

Every company will have lost some points by my system, and a company with fewer than 35 remaining will be viewed with considerable caution. Naturally, those with more than 35 would be investigated further before I invested.

For the record, Pentland Group and British and American Film Holdings would have passed my test; companies such as Gresham House, Maxwell Communications, Leading Leisure and the Lep group would have failed it.

I stress that this scoring system is based only on my personal judgments and might well not suit others. But at least it ensures I go into future stock market investment with my eyes open wider than before.

**The Annual Reports Service** is available by calling 081-643-7181. Readers need to quote a code, which is shown on the share listings page at the back of the FT's front section.

## BES slips past the Revenue's curbs

**T**HE BUSINESS Expansion Scheme (BES), introduced to encourage investment in cheap rental housing, has slipped the bounds set for it by the Inland Revenue.

The original idea was to offer investors full top-rate tax relief in return for two "catches" – they had to put their money away for five years, and take a substantial risk. But the schemes put on the market for the present BES season seem to have eradicated both.

BES sponsors started limiting risk by asking housing associations and universities to covenant to pay a fixed sum for BES shares after the five-year tax-exempt period had elapsed. But these schemes had no third-party guarantees from financial institutions.

Now, however, several clearing houses have been persuaded to underwrite schemes. These companies are effectively as safe as the banks themselves.

The latest innovation, which turns the tax shelter market on its head, is the non-recourse loan. Investors can take out a loan, with shares in a BES company as security. This allows them to realise their investments well within the usual five-year BES period.

Taking out leverage to benefit from tax reliefs would normally be risky. If something went wrong with the BES, the borrower could find calls being made on his other assets. But a scheme introduced last week by Johnson Fry, and imitated immediately by others, allows for non-recourse loans.

Under this scheme, the bank was allowed to recoup its money only from the BES shares and, no recourse to the borrower's other assets. This opens the way for stupendous returns simply by arbitraging the Inland Revenue.

Johnson Fry was quickly imitated by Close Brothers' Bessa Blue Chip scheme, guaranteed by Barclays, and both issues are now almost fully subscribed. More schemes on similar lines seem certain to appear, however, as demand has proved to be exceptional. Under Johnson Fry's

scheme, TSB's Mortgage Express agreed to lend investors an amount equivalent to 75p for every £1 they invested. Top-rate taxpayers would have received 40p in tax relief and so, in practice, would have invested only 60p.

This is equivalent, after the delay in receiving tax relief is taken into account, to an annual yield of 19.8 per cent.

Basic-rate taxpayers would only make a profit of 1p, having parted with 75p.

Close Brothers then introduced a non-recourse loan with identical terms of 75p per 100p invested after one year, and also offered to lend money at 72p per 100p invested after six months – at about the same time the tax relief would arrive. According to Close Brothers, this is an annualised yield of 25 per cent.

Terrace Hill Capital and

– better than the TSB and Barclays' offerings, which work out at 13.8 per cent and 13.7 per cent respectively if held for five years.

Also on offer is the Third Johnson Fry University Cash-Backed scheme, which will buy property for Loughborough university. There are no special loan provisions, but the scheme is backed by a certificate of deposit held by the Law Debenture Trust Corporation. The rate over five years is 12.28% for every £1.00 invested now. A similar offer is available from Airways Assured II.

However, analysts John Spiers of BES Investment, and Anthony Vagdaroff of Allenbridge have both found fault with the estimated annual yield of 15.3 per cent published by the scheme. Spiers says it should be closer to 14.9 per cent, they say. The cash backing arranged for the scheme is sufficient only to cover 74 per cent of the necessary cash at the end of five years.

Chamberlain De Broe, an independent adviser, is offering an execution-only dealing service for BES schemes at a charge of £50. Alan Greening, of Chamberlain De Broe, points out that locking in to the BES for five years could still be wise, as there is no way of knowing what tax shelter arrangements will replace it.

According to Greening: "You are sacrificing the long-term returns by opting for a short-term loan. We would recommend that after April 5, people should be looking up for five years because we don't know what the alternatives to BES are going to be."

He accepts that the non-recourse loan was "almost a stroke of marketing genius" on the part of Johnson Fry, and he expects other banks to offer higher loans. He regards 80 or 90 per cent loans as feasible because many banks have large property portfolios.

Less secure BES companies are on offer. Kerrington Maxi-Growth is the latest in a series of companies which buy property, rent it (hopefully, for high yields) and then aim to sell for a profit after five years.

## John Authers explains how sponsors have reduced risk

Smith & Williamson Securities are sponsoring two schemes (with guarantees from large banks) which will buy newly-built properties.

Accumulus, sponsored by Terrace Hill, will buy properties built by developer Metfield Estates. After five years, Metfield will pay £1.25 for every £1 spent now to buy back the properties. If Metfield is unable to do this, the money will be paid by the Standard Chartered Bank instead. Loans are available after one year, but fixed-rate non-recourse terms have not been negotiated.

Cavendish Waters Guaranteed, sponsored by Smith & Williamson, is similar. Waters, the developer, will build and then buy back the properties for the same price of £1.25 for every £1.00 spent now. Waters' ability to pay is guaranteed by Midland Bank.

The equivalent annual yield to a top-rate taxpayer of both these schemes is 14.7 per cent

## CGT relief is limited

**MY WIFE** and I have been in self-employed partnership for over 30 years. During this time, we have run three separate strands of activity under different trading names – each filling its own accounts, but with common resources operating from our flat.

We made one of these a limited company because of the higher risk but it still operated without employees, and using the common facilities of the partnership.

We have received an offer for the limited company and its one product activity. The Inland Revenue guidelines on CGT retirement relief for "family businesses" indicate that relief is only available to full-time family directors. Over the years, the activity of the limited company has become the principal source although our other work as a self-employed partnership has continued inseparably from the limited company.

Our drawings from the company go into our main partnership account (with all other income) on which we have always been taxed as self-employed people. Can we qualify for the CGT retirement relief if the limited company is sold? We are both over 60.

■ You and your wife do not appear to satisfy the arbitrary criteria for relief under section 163(5) of the Taxation of Chargeable Gains Act 1992. However, the solicitor who acts

## Q&amp;A BRIEFCASE

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All enquiries will be answered by post as soon as possible.

for you in the sale of the shares will be best placed to advise you, since he or she will have ready access to the relevant facts.

## Overseas posting

I AM an officer in British Army on the Rhine and I am treated as resident for tax purposes. My wife has no job and will be here for several tax years. Her unearned income from building society accounts in the UK exceeds her personal allowance.

Is she allowed to open an "overseas" account that would pay interest gross? If so, would such a course alter her entitlement to a personal allowance for UK income, and my entitlement to the married couple's allowance.

The tax office say an overseas account is "inappropriate" but I cannot pin them down to whether it is allowed.

■ While we cannot give investment advice (in view of the Financial Services Act 1986), we invite your wife to consider whether it would be more convenient for her to move her accounts offshore, say to the Channel Islands or to the Isle of Man. The administrative burden which the Inland Revenue is imposing on UK building societies and banks with members and depositors who are not ordinarily resident in the UK makes it increasingly unattractive for anyone who is living overseas to keep their account in the UK. You will no doubt have seen reports that some UK building societies are already telling their overseas members and depositors to take their business elsewhere. Although others have offshore associates happy to take over the provision of account facilities for a) overseas depositors and b) UK depositors who, for example, want to receive untaxed interest rather than to wait for tax refunds (with consequent loss of interest).

The location of your wife's accounts etc does not affect your entitlement to the married couple's allowance.

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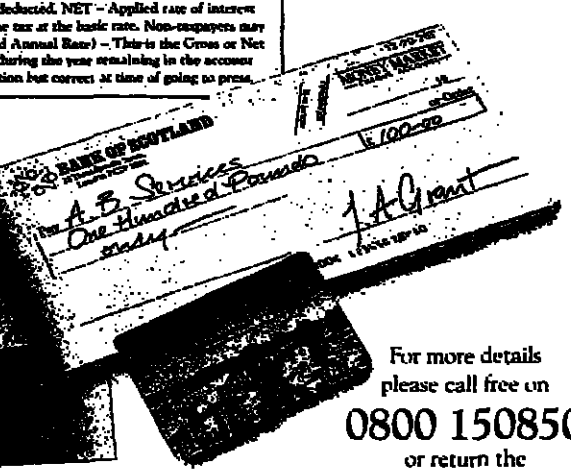
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## PERSPECTIVES AND GARDENING

# Hi-tech sleuths who take art off the fence

**B**RIGADIER James Emson has been a trouble shooter all his life. When London's Brecon went on strike he was appointed Chief of Staff for Military Firefighters. Today he is leading another fight, against art theft.

The weapons are not hoses or guns but computers, and some slick software produced in the US and installed in the basement of 13 Grosvenor Place, a stone's throw from Buckingham Palace.

From his high tech bunker, surrounded by five university graduates with degrees in history of art, the ex-Brigadier directs his fast-growing operation.

The International Art Loss Register is a computerised database of stolen art with over 40,000 items in its memory bank ranging from snuff bottles to marble Venuses. Items (they must be over \$1,000 in value) are logged by description and by photograph on the state-of-the-art optical computer. The fees vary.

Insurance companies take out a corporate subscription for \$2,000-odd pounds, which means that whenever one of their clients is robbed the theft is automatically logged with the ALR; otherwise you and I pay £20 to register a theft, or £10 to conduct a "search," which says Emson, has no cut off point.

The ALR was founded in 1990 by a consortium of leading auction houses (Sotheby's, Christie's, Phillips) and insurance companies (Hogg Group, Lloyd's, Nordstern). It has confounded its critics and is proving extraordinarily successful in tracking down stolen art.

Recently a man in double-breasted suit appeared at the counter of Sotheby's with a view of Westminster Abbey by John Inigo Richards, claiming he had bought it in a car boot sale for £40 and had cleaned it with Fairy Liquid. Sotheby's found the story far-fetched and rang the Register. There, Caroline Wakeford fed details into the Regis-

ter, to instigate a "fuzzy" search, hoping for a "match." Up came an identical picture logged as stolen a month earlier. A cry of jubilation went up in the bunker.

The police are making increasing use of the Register. The police have free access to the ALR, and many of the "dedicated" officers spend hours in the bunker "fuzzy searching". Recently the Regional Crime Squad paid a visit with photographs of two stolen pictures, Charles I and Henrietta Maria, copies of Van Dyke, which had been registered in 1991 by a loss adjuster. This led to the recovery not only of the paintings but of nine other items, all stolen

from the same Somerset house.

"Liaison between the 52 different forces in Britain is poor," said Sarah Jackson, another articulate ALR sleuth. "Increasingly we act as go-between."

The Metropolitan Police logged the theft of several pictures from a private London house with the ALR; six weeks later the City of London police found a hoard of paintings in Jewry Street and, suspecting they must be stolen, came to the register office with photographs. After feverish "fuzzy searching" the paintings were identified as the same sea scenes by James Cleveley the Elder and works by Thomas Luny, worth £20,000, which had been stolen from a private house in Westminster and registered by the Met.

At the end of July, the Register identified a stolen item of furniture

when it was sold at an auction. This gave police the breakthrough which led them to a series of "fences" in London. They recovered 3,800 items stolen in burglaries in the southern half of England. The Register identified 198 of the items, 80 of which were insured with Lloyd's.

The new head of the Metropolitan Art and Antiques Squad, Detective Chief Inspector John Butler, is so impressed with the Register that he is installing a modern in Scotland Yard to give the police instant access to the files. Emson is delighted: "The police don't have a comparable stolen art register which includes images, so we are filling a vacuum. We are the art equivalent of the Lloyd's register for shipping."

Sotheby's and Christie's, leading shareholders of the ALR, use it to have their catalogues searched at a cost of over £20,000 a year. "If we can show a painting has been stolen they will withdraw it at once... both Sotheby's and Christie's are determined to see a reduction in the traffic in stolen art."

Insurance companies have a vested interest in subscribing to the ALR (corporate subscriptions run at £2,500 a year). They want to get the stolen art back so that they do not have to pay out.

"At last we're getting through to the loss adjusters," says Emson. "They are beginning to see that it is worthwhile registering thefts with us." The figures speak for themselves: 134 Lloyd's syndicates subscribe and over £400,000 of stolen art has been recovered. Syndicate 33 paid the ALR a fee of £3,178.50 and recovered £67,350 of art.

"Value for money," the ex-Brigadier purred.

But the art trade is showing little interest in the Register, even though the Society of London Art Dealers and the British Association of Art Dealers are both shareholders. Philip Broadbridge of the Lon-



don and Provincial Art Dealers Association says his members are sceptical of a commercial body which is doing the police's job for them.

Emson counters: "The police are unlikely to get a national database of stolen art... anyway even if they do it won't be available to the public. A dealer can subscribe for only £36 a year... it must be in everyone's interest to stop the circulation of stolen goods."

And yet dealers are not coming forward. "It's the hassle... police, perhaps a court appearance, a lot of wasted time..." says Philip Saunders of *Trace* magazine, which circulates photographs of stolen art. "In my view dealers will never subscribe in any numbers... they should but they won't."

In France dealers are obliged by law to register all purchases except those bought at public auction. "This draconian measure has

been an effective deterrent against dealers who may otherwise have been tempted to buy stolen art," said Saunders. "It's only a matter of time before the same legislation comes to Britain."

Meanwhile, the ALR is spreading its international net: the European dealers' associations have subscribed, so have leading French, Swiss, German and US insurance companies. A few weeks ago the head of the Italian national art

squad, Colonel Conforte, visited the Belgravia bunker.

Soon the ALR will be working round the clock. It is linking its computer with Centrox, a US company which digests the catalogues from 178 auction houses round the world. The ALR will be able to search for your Georgian tea pot, Constable sketch or Chippendale chair, world wide. Unless the art thieves think up a computer virus to stop it.

## It's a hip scene in the bushes

**T**HE HIPS on my rugosa roses have never been finer or more plentiful. I am not sure why because the crops of berries and other fruits in my garden are rather patchy; but, of course, the hips set quite late and the flowering of rugosa continues for a particularly long time and this year was very prolific.

I grow two varieties of *Rosa rugosa*, both single-flowered. One named *Alba* has white flowers and the other, *Rubra*, is magenta; both have the good rugosa perfume. Both flower from late spring until autumn but the hips are usually taking over by July.

These are big, flattened globes, rather like little tomatoes except

that each has a distinctive green top-knot composed of the old calyx segments of the flower; this gives them a very distinctive appearance. They are carried in good clusters.

These two fine roses must not be confused with the rugosa rose that is used by nurserymen as a root stock for standard rose trees. This is closely related but is probably a hybrid. Certainly, it is a very inferior garden plant with quite a different habit, taller and laxer and with a pernicious habit of producing suckers very freely.

By contrast, the true *Rosa rugosa* is about as wide as it is high, well-branched and sturdy. Although it does sucker, it is not anything like so wide-ranging as the root-stock.

I like my rugosa roses not only because of their long flowering season and good crops of hips but also for their thick-textured, deeply-veined, dark green leaves which I have never seen marred by disease of any kind. This good health seems to be universal; even the pests keep off, as if the leaves contain something obnoxious. I prune late in

winter with a hedge-trimmer and cut back only as far as necessary to keep the bushes from spreading too far.

Hybrids between *Rosa rugosa* and other roses tend to be sterile, which has limited the number of garden varieties made with this parentage. But there are some good ones, most notably *Blanc Double de Coubert*, *Fran Dagmar Hastrup*, *Roseale de L'Hay* and *Scabrosa*.

The first, as its name implies, is white. The flowers are semi-double and the habit is sturdy and bushy,

but it does not produce hips freely like the single-flowered varieties.

By contrast, *Fran Dagmar Hastrup* does produce lots of hips and they are of a particularly deep colour which contrasts well with the pale pink, single flowers. It is also shorter and more compact and so is not suitable for making a big hedge, but it can be used for a low one: say, 3-4 ft.

*Roseale de L'Hay* is the best of the lot for flowers, which are semi-double and have a particularly rich perfume. Only in its relative lack of

hips is it inferior. *Scabrosa* is extra-vigorous and everything about it is large - flowers (which are magenta), leaves and hips.

Apart from these, there are a number of roses that are related to *Rosa rugosa* but do not look anything like it. This, no doubt, is due to the sterility of most of its hybrids. But there is one notable exception, a rose now named *Rosa kordesii*. This has a remarkable history since it virtually amounts to the production, in cultivation, of an entirely new species.

German breeder Wilhelm Kordes was attempting to raise seedlings from a rose named *Max Graff*, which is a hybrid between *Rosa rugosa* and the vigorous, climbing species *R. wichuraiana*. For a long time he failed to get any fertile seed but, eventually, he produced two hips from which he managed to raise two seedlings.

One of these proved to have double the usual number of chromosomes and, on that account, to be fertile. This was the plant that was named *R. kordesii*, and Kordes has used it to produce a number of new roses, all of which, I think, are climbers.

Arthur Hellyer

## When you need an expert...

Robin Lane Fox knows where to turn if his plants have fire-blight or Black Spot

**I**N AUTUMN, leaves are supposed to fall romantically; this year, some of mine have made a premature exit.

Old-fashioned roses took their clothes off in July, hostas have turned to rage, some of the sorbus are wearing see-through and a particular type of malus has gone topless for most of the year.

I know how to handle a ragged hosta, reach for the slug bait, where the pet-friendly Growing Success is my No 1 choice. The other problems are more difficult. They all involve diseases and, here, I know very few of the answers. So do the experts, but sometimes they know one which we do not.

This week there has been one place to find an expert: the Royal Horticultural Society's Great Autumn Show. It is a gentle mixture of blood-red dahlias, blue autumn gentians with Scottish names and a heavy emphasis on fruit.

This show is much less crowded than Chelsea, but it shows you all the things which Chelsea is too early to permit. There are experts everywhere, experts at visiting flower shows, experts at finding beige suits, experts at finding things to do now that the children have grown up and a president who is expert at making speeches of welcome which have very little to do with the art of the gardening. If you mix with the rose-petal hats, you will soon find the expert you want.

By the bi-coloured collarette dahlias I met the redoubtable Mrs Robinson and settled my rose's treatment. Mrs Robinson has been a guiding spirit of the great garden at Hyde Hall in Essex. Its roses are famous; it has the Arthur Hellyer seal of special approval and the trust which now runs it is making it safe for future public visitors.

Since the 1950s it is the creation of the Robinson family on one of Britain's less favoured hills. Mrs Robinson is an ordinary Essex girl. Now in the autumn of life, she knows how to make a rose bush happy: what should we do with



A close inspection of Notcutt's stand at the RHS autumn show

our naked old-fashioned roses which are plainly suffering from the awful Black Spot?

Mrs Robinson recommends a double attack. When the first leaves appear early in the year, spray them with diluted Nirod T, try to spray fortnightly on any new leaves which appear, at the same time water freely, preferably by using a stretch of the newish dribble hosepipe, the type with leaky holes which can be laid along a flowerbed.

The hosepipe is certainly a good idea for those of you who have a source of water near. We have almost all forgotten the very dry spring, but it is probably the reason why Black Spot and leaf drop were so serious so early in rose gardens on

less favoured soil.

What about denuded trees? Among the bigger nurseries, none is better than Notcutts at showing something seasonal among trees and tall shrubs to the best effect. Last week their display of white and red berries on Sorbus trees was heavenly. Charles Notcutt, one of its presiding geniuses, was ready with all the answers. Your malus here are all very charming, I confessed to him, but I was told to grow grey-leaved Malus Toringoides five years ago and this wretched tree has lost its leaves every year in June. Dump it, he answered, hitting the floor with his walking-stick: grow Red Sentinel instead.

The family of Malus includes

the crab apples and, apparently, my crab has caught scab. Red Sentinel is much more resistant and the Notcutt view is that the birds leave the red fruits on its sweeping branches until late in the season. Otherwise, he suggests, grow Golden Hornet instead.

I wondered if, perhaps, they were not, well, a little too obvious? Not to Notcutt: if they are so well known, it is simply that they are the best and that is why most people plant them. The results are in Notcutt's favour.

What about that problematic Sorbus, Joseph Rock? From time to time I mention fire-blight here and its special attraction for this lovely small tree, previously one of my

favourites in any list. Fire-blight began in the south-west and readers as far north as Scotland have been writing to ask if it is likely to hit them too and, if so, what should they do about older trees?

The Notcutt view is that fire-blight is swirling in the atmosphere just about everywhere (I wondered if it was present in some of the rose-petal hats) and that every garden is at risk to it. New plantings should therefore avoid Joseph Rock; personally, he likes the red-berried Sorbus Matsudana instead. Old plantings with existing Joseph Rocks need to be very careful not to prune or damage them during the autumn or winter when the blight will enter through scars. Nobody will be so tough as to pull up good old trees but if one starts to die back, show no mercy. Chop the lot before they infect roses and malus in the vicinity.

If this disease is all too much for you, why not sink your teeth into a Continental strawberry instead? The king of new strawberries is Ken Muir of Clacton-on-Sea, Essex. This year, he is marketing a new French number called Maras des Bois which combines the lushness of a garden strawberry with the subtlety of the small alpine variety from the woods.

The publicity did say that it would fruit in late spring, summer and autumn, but Ken Muir seemed more cautious: de-fruit it early in the first year and allow only one crop in the first two. Late cropping does happen, but wasps love it; duly chastened, I sampled a Maras des Bois which is best tasted when it has turned a dark red. I thought it an interesting bit of both, as the marketing once called British Biscuit in America.

If you do not like this French little fantasy, you can always leave it out for nearby French partridges: a French evening snack for my unannounced visitors who have, incidentally, returned at full strength after doing their best to destabilise the entire Anglo-French system before this weekend.

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## HOW TO SPEND IT

## So you want to be a paperback writer?

Popular fiction writers need a congenial work environment free of distraction, says Michael Thompson-Noel. Especially if they are knocking out a private eye novel that has a protagonist — Harriet Costley — who is tracking a lost Manteegna and eats strawberry ice cream for love food

**B**OOK PUBLISHERS are anguished and despondent, just like everyone else. Yet it cannot last indefinitely. At some point this side of the millennium there ought to be a hiccup of recovery, a tiny burp of growth, which would be novelists like me can take advantage of.

Not that I want to be Patrick White, or even Hanif Kureishi. My aim is strikingly modest: to write a thriller, set in London and starring a female PI (private investigator), that someone will want to publish and others will want to read.

Easy it is not. I only write at weekends. I have problems with minor characters and problems of credibility. The *mise en scene* is blurred. I have trouble depicting nastiness. I sometimes wonder if I am too nice and sheltered — a good word is vacuous — to even be attempting it.

But on I bravely plod. I believe I am halfway through. And at least I have a protagonist — sexy Harriet Costley — who bears not a flicker of resemblance to the current brood of sweaty, hollow-kneed, post-feminist female investigators with whom publishers are enamoured. Harriet is investigating the theft of a Manteegna drawing. Somehow the trail leads her into ultraright politics. She is intelligent and manipulative. She ought to be in the movies.

I am sure I am not alone in my weekend endeavours — that there are numberless beaver souls trying to break into the ranks of paperback writers (or paperback rights, in the case of private-eye fiction, where wrongs are righted, evil thwarted).

Perhaps you are thinking of trying it. If so, you will rapidly discover that what a fiction writer needs most is a congenial environment free of distraction. You need absolute quiet, because you must concentrate absolutely. A few toys help. Here are eight things that will help create an ideal work environment, or fiddle away the hours when creativity flags.

1) *A table and chair.* For some reason, I prefer working at a table to working at a desk. But it has to be a large one. A PI novel needs plenty of research. At present I use the dining table, but I am saving up for one of the smart and chic tables available at the Aero showroom at 96 Westbourne Grove, London W2 5RT. Aero produces an excellent range of modern furniture, including shelving and light-

ing. The table I like most is called the Drennan rectangular cast aluminium base, glass top, designed by Robert Drennan — £740. There is also a round version at £590.

2) *A good supply of pens.* I am not a home computer bore. I usually write in longhand. I will probably buy a PC when I come to the first re-write, but for now I am using pens. There are times, when writing fiction, when the only thing you can do to chase away the blues is reach for a different pen.

Recently I visited The Pen Shop at 199 Regent St, London W1, which stocks about 2,000 different pens and has demure and helpful staff. Normally I use cheap pens. If I had the money I would buy the Waterman Man 100, which costs £190. As it happens, the most expensive pen in the shop, at £5,000, is a solid gold version of the Man 100. There are other

*'I find John Lewis vexingly eccentric. But I like its blinds'*

branches of The Pen Shop in Leeds, Glasgow, Sheffield, Manchester and Newcastle.

3) *A pot of artificial flowers to remind oneself, constantly, that nothing is what it seems, not in politics, philosophy, business or fiction.* I like artificial flowers. I like a lot of things — patterned carpets, spotlights, brightly coloured wallpaper — that the smoothies abominate; no wonder their homes are identically curved and dull. You can buy artificial flowers practically anywhere.

4) *Portable air conditioner.* A nice-looking mobile air conditioner is the Carrier Holiday 1 (the company's founder, Dr Willis Carrier, is the man credited with inventing air conditioning, 90 years ago). The Holiday 1 plugs into a standard power point and provides de-humidified hot or cold air instantly. It is mounted on castors and is reckoned to be quiet enough to use in a bedroom.

5) *Tennis club membership.* Just as fiction writers must entomb themselves for hours at a stretch so as to plumb the creative depths, so, periodically, they must escape outside for air. A lot of backs play tennis. So do various novelists. Like me, Martin Amis is a member of the Paddington Sports Club in London's Maida Vale, which is friendly, well managed and has plenty of courts.

A tennis membership costs £100 to join and £255 annually. Tennis and squash combined: £100 plus £200. They also have bowls. If Amis played tennis like me, he would be a happier little fellow. If I could write like Amis, I don't suppose I'd be here.

Like any proper refrigerated air conditioner, the Holiday 1 needs an exhaust tube, which can be run (vented) through a porthole fitted into a window pane or wall, up a chimney, through a partition, or through a slightly open window.

It costs £949 plus VAT from the Air Improvement Centre in Victoria (23 Denbigh St, London SW1). Its director, the deeply-informed Valerie Taplin, is almost as swish as PI Harriet Costley. The centre supplies a wide range of products, not just air conditioners but air purifiers, humidifiers and de-humidifiers.

6) *Coffee machine.* When you're running hot, air conditioning alone may not cool you down. Some weeks ago I spent an adventurous £250 on a Gaggia Gelateria. It is a professional's machine — not one of those limp-wristed jobs you stick in the freezer, that seem to take forever — but a free-standing pro job that makes unimprovable ice-cream and sorbet (sherbert, to Americans), starting from scratch, in about 30 minutes. For love food, Harriet Costley is fond of knocking up strawberry or date ice cream in her Notting Hill kitchen. Cute, *non?*

7) *A blind to shut the world out.* I find John Lewis vexingly eccentric store. It won't do this, it won't do the other. But I like its blinds, especially the modern ones in Hockneysque stripes and colours; and it is happy to measure and fit them.

8) *Tennis club membership.* Just as fiction writers must entomb themselves for hours at a stretch so as to plumb the creative depths, so, periodically, they must escape outside for air. A lot of backs play tennis. So do various novelists. Like me, Martin Amis is a member of the Paddington Sports Club in London's Maida Vale, which is friendly, well managed and has plenty of courts.

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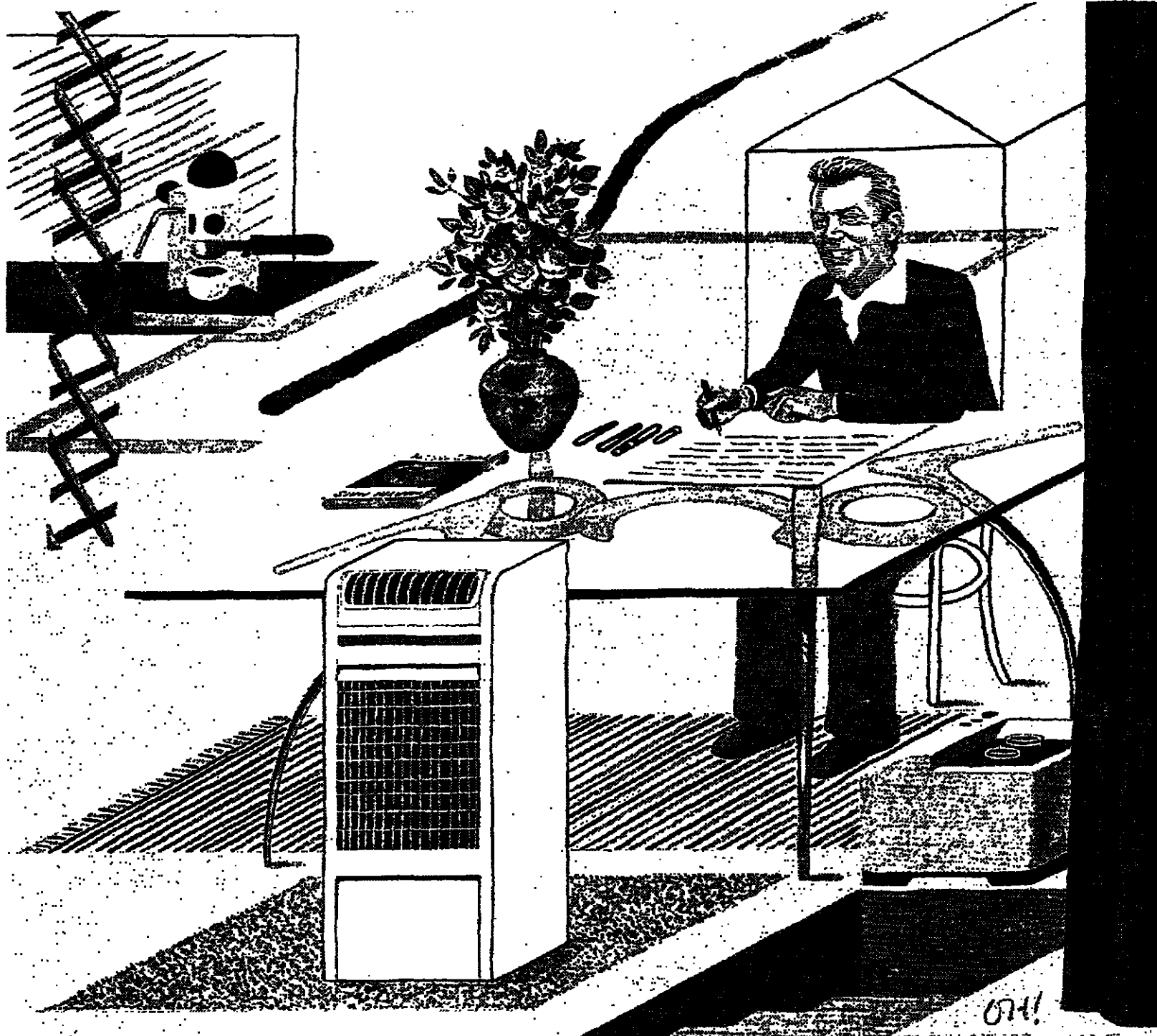
At such times you can forget the elegances of fly fishing. You need worms, and plenty of them, in a box that will fit into the pocket of a sound, waterproof coat. The other requirements are wellington boots, a pack of books, some weights, a 10ft rod with a fixed spool reel, a bag for the fish, and a sturdy indifference to the elements.

The trout of these lakeland beckes are at the sharp end of life's struggle. Little food comes their way in the turbulent pools; what there is must be grabbed at once or lost for ever. A spate is their time of plenty as worms, beetles, slugs and caterpillars are washed their way. Appetites are keen and reflexes quick.

The technique is simplicity itself. The angler crouches beside the pool and lobs the weighted worm into it, seeking out the eddies and holes behind rocks. The line is held between the fingers and the reaction to the jab-jab of the bite must be instant (otherwise, it will be found that the worm has been elbowed or it and the hook swallowed).

Once a trout has been hooked, it must be transferred from its own sphere to the terrestrial one as soon as possible. Forget about playing it and do not encumber yourself with a net. Simply swing it out of the water over the land, then seize it, unhook it, and either knock it on the head or return it. The technique is simple, but that is not to say it is easy. There are times when the fish will not bite at all, and others when they will bite everything except the portion of the worm containing the hook.

Most vexing of all is the amazing facility of these trout



**T**HE RESPONSE to my offer to provide trout for supper was, I thought, short on trust and long on scepticism. Their expressions seemed to say: "We've heard that one before. Get the chaps out of the freezer." But I was quietly confident, eager to assume the role of the hunter.

It was an old-fashioned Lake District day. Rain poured from an implacable slate sky. The fell tops were invisible, the lower slopes streaked with silver torrents. Dralpipies gushed; sheep, trees, and holidaymakers dripped mournfully.

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Fishing/Tom Fort

## A bite in the beck

for wriggling free of the hook mid-way through the swing from water to land. Hurling yourself on your knees and clutching with bare hands at a slimy escapee is undignified and usually fruitless.

This beck fishing is also physically taxing for those accustomed to meandering southern chalk-streams. It involves much scrambling over devilishly slippery rocks, and slithering up and down spongy, sodden banks of moss. Sooner or later, you will slide or step into a pool deeper than your boots, and wet feet will be

added to other discomforts.

In such circumstances, self-control is lost easily. I remember watching a brother fishing the best pool on this particular lakeland stream. He had insisted, against all advice, on using a soft-tipped fly rod and, as a result, lost each of the six trout he hooked. For a moment, I feared he was about to stamp on the offending implement, until — with a visible effort — he got a grip on himself.

I have had my share of such nightmares but was favoured on this recent excursion with a

tolerable proportion of success amid the usual blunders and failures. The beck — it runs down not far from Ambleside, but I will give no further clue as to its location — was in perfect order. In the first decent pool, I took two nice fish. One was a full 6oz, a good specimen in this Lilliputian world. In the next pool I lost two, thanks to a pestilential overhanging branch which inhibited the landward swing.

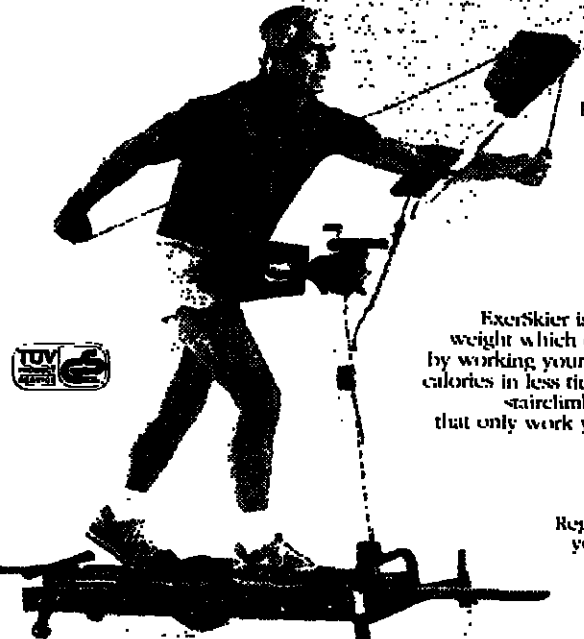
Thus was the pattern of the morning established until, having forged my way up two miles of valley, I found it

wasn't morning any more. I was troubled briefly by the recollection that I had promised to be back for lunch. But I reminded myself that the chief duty of the hunter is to provide for his dependents, rather than to observe bourgeois conventions such as meal-times.

I arrived back late in the afternoon with 10 trout of edible size, having put back as many more. In the event, the children and their mothers turned up their ill-educated noses at the hunter's spoils, which I shared with another brother.

Thirty years ago, when I first fished the beck, I was told by an old Ambleside angler that its trout were the sweetest-tasting in the whole of the Lake District. I am happy to report that they have lost nothing of that.

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## FASHION

# Women who boldly tread beyond the sex barrier

*A woman in a man's suit? Ugh. But a woman in suiting cut to fit the female form... well that's another matter, as Avril Groom discovers*



**THE BIKER (above):** stretch wool jacket (with skirt, not shown), £1,400, earrings from £190, both from Chanel. Leather jeans, £295, from Jaeger, Regent St, W1. Silk scarf, £19.95, from Fenwick. Gloves by Dents, £29.95 from Selfridges, W1 and Owen Owen. Bracelet, £36 from Agatha, South Molton St, W1. Boots, £165 from Russell and Bromley.

**THE COUNTRY SQUIRE (below left):** Jacket, £385, skirt, £168, from Roland Klein, Tryon St, SW3. Waistcoat, £25 from Marks and Spencer. Shirt, £69.95 from Alexon. Sunglasses by Yves St. Laurent, £145. Hair: Joel O'Sullivan for Max and Co, Motcomb St, SW1; make-up: Cheryl Phelps-Gardiner.

**T**HEY stride boldly through social history in their trousers, toppers and boots. They are the great cross-dressers, women who have become famous for, among other things, recognising the indisputable fashion paradox that dressing like a man can make you more of a woman.

They are also the role-models for this autumn's definitive fashion image. As lifestyle models they are more of a problem. Some go rather too far down the path to androgyny, if the history of Vita Sackville-West is anything to go by. But cross-dressing is absolutely no indication of sexual proclivity and, as women such as Marlene Dietrich, Sarah Bernhardt and even Shakespeare's Rosalind found, it adds a heady amount of feminine allure.

Donning male-inspired garb is, of course, nothing new. In the 16th century Joan of Arc wore armour which, although her captors complained of her masculine dress, appears to have been moulded to her female figure. And, in essence, the rules have not changed since. A woman in a man's suit risks looking unattractively butch. A woman in men's suiting, cut to follow and flatter

the feminine form, is another matter altogether.

The secret of success is the witty juxtaposition of items traditionally considered either a male or female preserve. Wearing pinstripe pants with lace-up brogues is far too literal; this is the first time for ages that trousers with high heels have been stylistically correct - aficionados choose a slightly chunky heel and a small platform.

Likewise, why wear a shirt and tie with your grey double-breasted jacket when you could surprise the chaps with a lace-trimmed "body"? Hair is another area for attention, the bigger, softer or more carelessly piled-up the better. But sport an Eton crop with pinstripes and your intentions could be misinterpreted. Make-up, too, is a factor - remember Liza Minelli's dark eyes peering from under her bowler in *Cabaret*. And cross-dressing need not even include trousers. The most obvious way to feminise a mannish jacket is with the new long skirt, provided it is cut sensuously tight across the hips and lengthily split for ease of movement and for a glimpse of legs that, after years of the short skirt, most women no longer feel they need to hide.



How these juxtapositions work psychologically is explained by fashion historian Colin McDowell, whose new book *Hats* published next month (£24.95, Thames and Hudson) contains several examples of women highly glamourised by wearing men's hats. "Traditional men's dress, and especially hats, are still symbols of authority and dignity in our society," he says. "Add that to the feminine glamour which is the basis of women's sex appeal and you pack a very powerful punch. Men's styles are usually covered up which, on a woman, is extremely sexy. Conversely, men in women's clothes lose their authority and become figures of fun."

It is tempting to ascribe seri-

**THE GANGSTER (left):** trenchcoat, £369 from Jaeger, Regent St, W1, Brompton Rd, SW3, Cheltenham, Harrogate and Edinburgh. Wool jacket, £79.95, trousers, £45, both from Marks and Spencer. Cotton shirt, £135, silk tie, £36, both by Jasper Conran from Fenwick, Harvey Nichols, SW1 and Sogo, Piccadilly Circus, W1. Hat by Borsalino, £145 from Herbert Johnson, New Bond St, W1.

ous sociological motives to 1992's rash of cross-dressing. Perhaps women wish to celebrate their increasing power in the professions by wresting the clothes from men's backs as well as the jobs from their grasp. The truth, though, is more prosaic, just another turn in the fashion cycle.

After several years of colourful near-vulgarity and clanking gilt accessories, spawned by the conspicuously consuming Eighties, what could look more perfectly new for the restrained Nineties than a plain, grey John Major-style suit? Inevitably, this is the style which designers and stores have most taken to heart. Apart from racy Marks and Spencer pinstripes, you can find this look at every

**THE DANDY:** acetate/viscose tailcoat, £479, from Dickens and Jones, W1 and Frasers of Glasgow; silk blouse, £179, from Harrods, SW1 and Ambers of Amersham. Both by Louis Feraud Set. Silk waistcoat by Tom Glibbey, £99 from Fenwick, W1. Cotton brocade trousers by Selina Blow, £220 from Whistles, St. Christopher's Place, W1. Earrings, £28 from Butler and Wilson, South Molton Street, W1 and Fulham Road, SW3.

level, from Kookai's budget hairline stripe polyester/viscose trouser suit at £108.99 and Alexon's birdseye check wool at £198.95, to Jaeger's sleekly-cut grey wool twill suit at £378 and Ralph Lauren's feminine, wide-trousered style at £960.

But there are many other ways to play the man's lady. Designers have let their fantasies run riot on male stereotypes from the country squire to the motorcycle courier. Take your pick but bear in mind that the final effect should always be that of a strictly female male. And if anyone tells you to walk like a man, ignore them.

Photographs: JOHN SWANNELL.

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## WINE AND FOOD

**T**HE 1982 clarets were widely acclaimed even before the grapes reached the fermenting vats.

Emile Peynaud, the eminent Bordeaux University professor, said there is more sugar in the grapes than in any year since 1947, and comparisons were readily made with that year and the celebrated 1961.

The alcoholic strength was high, the colour exceptionally deep, and the acidity low. Definitely a Merlot year, with a record crop of 3.5m hl of red wine: nearly 1m more than in 1981.

Initially, the Bordeaux trade said there was no reason for increased en primeur prices but they were increased sharply. First-growths opened at FF170 (£18.85) a bottle, ex-cellars, compared with FF100 the year before. Merchants capitalised on the prevailing buying euphoria and resold immediately at up to FF225.

This did not restrict demand, and speculation ran wild in the US. Typical British opening prices for bond ran from about £250 a case for Haut-Brion to £325 for Lafite, and

the others fell between. This led to a duty-paid, delivered cost to the consumer of between £240 and £385 a dozen. This was the only fairly recent vintage to date in which buying futures yielded a real profit, provided the wines were not held for long.

Accordingly, this was a special occasion for a group of six, including two Masters of Wine, which meets each year to dine and drink (not just taste) the eight first-growths clarets when ten years old. They set a standard for each vintage.

Decanted at least an hour in advance, the 1982s were served in the customary order: Haut-Brion, Margaux, Lafite, Mouton-Rothschild, Latour, Ausone, Cheval-Blanc and Pétus.

Here, then, are my notes made at the table, followed by

representative comments noted at the same time by the other five diners.

As all viewed the colours as deep, with Haut-Brion and Ausone a little less full than the others, the notes on this have been omitted. My notes are in italics.

**Haut-Brion:** Austere nose that opened up beautifully in the glass. Strong, fruity, medium length in the mouth. Distinguished wine. Nose developed meaty in the glass, very distinguished, brick, earthy taste, rather high acidity, savoury, lively nose, classic Haut-Brion taste impact, dry finish, slightly bricky, dusty nose, with good length, dry finish; blackcurrant, a bit

lightweight; sweet initially, some sourness later, not much body.

**Margaux:** Very closed nose initially, but much better later, edgy, peppery, seems to lack fruit and extract, needs

more time. Nose muffled at first, but soon evolved in glass, high marks, lovely crisp berry-like fruit; fleshy, opulent nose, well-mannered taste, unformed but impressive, has a long way to go, easy to under-estimate; deliciously sweet first on palate, beautifully balanced; lovely rich middle taste, good length, too young; aromatic nose, rather thin initially but richer later.

**Lafite:** Fine nose, elegant, distinguished flavour, good balance but when refreshed later had lost some body. Nose low-key at first, but developed creamy, spicy, vanilla, quite powerful, considerable extra tannin, acidity; rather dry, stinky finish, savoury nose, but can't see it developing dramatically; wonderful nose, meaty, substantial flavour, but dry in the mouth; delicious nose, candlewick, but gone down when

refreshed; raffiné, thin at end. **Mouton-Rothschild:** Very closed nose, quite strong, aggressive at first, but better later. Flavour a bit dull. Youthful for an '82, thick, biscuity nose. Massive wine, dry, full-bodied, tannic yet soft; exotic nose, very sweet palate impact, delicious tonight, but definitely leaner than Latour; still very young, dense, concentrated; huge almost Pétus-like, sweet, Californian; lacks elegance, rich, full sweet.

**Latour:** Full Pauillac nose, rich, fruity wine, with a good deal behind it, but not ready, yet less backward than usual. Touch of banana and vanilla on nose, fragrant after one hour, loads of tannin, great future; not much nose, very sweet palate entry, almost porty, first wine with perceptible tannin, backward; nose you could cut with a knife and fork, dumb, backward; unready, strong

banana smell, not very enjoyable now, intense, sweet with sharpness afterwards. **Ausone:** Chocolate nose, big, round, well-balanced wine, needs time as much behind it. Pleasant, mature nose, very sweet, medium body for an '82, dryish finish, a point; fruitcake nose, lovely tonight but I'd back Cheval-Blanc for the long term; sweet and succulent in mouth, the first wine really ready; cabbagey, herbal nose, more Italian than Bordeaux; slight sharpness on nose and a little neutral on taste. **Cheval-Blanc:** Fairly fruity on nose, but flavour richer than expected; nose came out of glass when refreshed, a very enjoyable wine. Gentle, sweet, harmonious bouquet, very sweet, lovely flavour and balance, nice now, unformed nose, hint of tea, lovely sweetness at first taste, currants macerated in

alcohol, very long; very rich, concentration on nose and palate; if anything slightly too ripe; very approachable wine not near its peak; strong, sweet, beguiling. **Pétus:** Near-burgundian, rich nose, sweet taste but not a lot behind it. Is there enough acidity to keep it? Rich, meaty, slightly matty nose, packed with fruit, virtually faultless, yet not exciting; hint of rusty nails on nose, treacle on taste, not appetising, a bit flabby; very rich and lovely length, is it too big as always? rich, ripe and Californian; smooth, sweet, rich, lovely.

After all glasses were refreshed, the order of preference was taken: from one to eight, with the lowest total first. 1 Cheval-Blanc (11); 2 Mouton-Rothschild (18); 3 Pétus (22); 4 Ausone (23); 5 Latour and Margaux equal (25); 7 Lafite (45); 8 Haut-Brion (48). The wines were judged on the night and, as can be seen, the first six were close together. All agreed there was not a bad bottle among the eight. As always, it must be emphasised that bottle variation may occur at this age, and only one bottle of each wine was opened.

## Grand Hotels

## Luxury in the old style

*In the first of a series on the world's great hotels, Nicholas Lander enjoys the old-fashioned opulence of the Crillon in Paris. There, with the city at his fingertips, he tries hard not to feel the pinch*

**T**HE PROSPECT of spending a weekend at the Hôtel de Crillon in Paris was beginning to interfere with my work. I wrote the hotel's name and address down on a piece of paper and put it on the corner of my desk, only allowing myself to look at it after a good day at the word processor.

I had mentioned where we were staying to the Frenchwoman responsible for the export of French food and wine to the UK. Far too sophisticated to say "Ooh la la!" she nevertheless offered me some good advice. "Pinch yourself while you are there, just to make sure it is happening to you."

But before turning to this very particular hotel's charms, let me begin with one or two negatives. Do not think of going to stay at the Crillon if you want to do some laps in the pool, burn off the calories on a jogging track or in a gymnasium. Such Americanisms do not exist at the Crillon.

Nor is the Crillon for you if when you enter your bedroom you like to fling your hat and watch it disappear into a far distant corner of the bedroom.

Their bedrooms and suites are extremely comfortable but constructed on the architectural principles of 18th century Paris rather than 20th century Houston.

Instead, go and stay in the Crillon for what it has offered since it was transformed in 1908 from a private house belonging to the Crillon family into an hotel for the paying public - its location, its interior and the comfort and charm it exudes. And, if you do not stay, do eat in the restaurant, Les Ambassadeurs, where the combination of a stunning dining room and the youthful partnership of General Manager, Hervé Houdré, 34, and chef Christian Constant, 38, can produce a most memorable meal.

The Crillon, on the north of the Place de la Concorde, looks out on to a magnificent slice of Parisian life. To the west is the Eiffel Tower, due south the National Assembly, and the Obelisk of Luxor behind which you can see the *bateaux mouches* plying along the Seine. To the east the Tuilleries and beyond the Musée d'Orsay and Notre-Dame.

Paris, it seems is at your fingertips even if, when you

are in the Place de la Concorde, you realise that you have to share it with countless others.

The entrance and interior of the Crillon are equally impressive. In the late 18th century when the Crillon was finally finished much greater emphasis was given to the large public rooms, which were to impress by their size and splendour, than to the bedrooms, reserved for more private conquests. Today the mirrors, brass and marble brilliantly reflect the light from a string of chandeliers while a log burning fire adds a homely touch and smells more redolent of the French countryside.

Les Ambassadeurs is immediately on your right as you walk in. On our first night it looked impressive and romantic with tall white candles burning on each table; it was as dignified for breakfast on the Sunday morning in spite of the highly polished bowl of All-Brion occupying pride of place on the central buffet table.

Michelin gives the restaurant two stars, the highest rating of any hotel dining room in Paris. What is particularly exciting



Where even the All Bran gets the two-star treatment: Restaurant Les Ambassadeurs at the Hotel de Crillon

about the food is the confidence Christian Constant, the chef, shows in searching for, and finding, new and adventurous combinations of foods and flavours.

A crustacean lasagne with lobster butter that even looked

perfect; a circular arrangement that mixed slices of firm, young potato, lobster and chives. A thick piece of cod topped with thin slices of chorizo, the spicy Spanish sausage, on a purée of flageolet and a fillet of sea

bass with *cous-cous*, all showed a sureness of touch and a sense of style. With the desserts Constant's team show the same flair and an eagerness to experiment with geometrical forms.

There were minor quibbles -

the service was not faultless and the wine list in the restaurant not quite as exciting as the food - but the overall impression of the Crillon emanates is one of magnificent luxury. Some time after our return we still pinch ourselves

just to remind ourselves that we did stay there.

**Hôtel de Crillon, 10 Place de la Concorde, 75008 Paris. Tel: 44-71-15-25, Fax 44-71-15-04. Double room from FF2,900 (£305) a night.**

## Crumbs of discomfort

*Nicholas Lander finds that life can be tough in a French bakery*

**A**T 7 am, the village baker's daughter opened the doors to me, her first customer. On my way out I bumped into the mayor, who pumped my hand like a good politician and bemoaned the fact that the bar owner had overslept and he would have to wait for that day's *Midi Libre*.

Along the main road came the baker's apprentice, on his shoulder a large, brown plastic container with 30 assorted *baguettes*, *ficelles* and *pains de campagne* fresh from the oven. While I strolled back, he ran, so that five minutes' later, as I walked past the baker's *laboratoire* (all French artisans, even butchers, give their units of production this name), he was busy loading the oven again.

The following Tuesday at 12.30 am, the 19-year-old apprentice, now known to me as Yannek, opened the *laboratoire* door to me, his assistant for the night. His boss had not yet arrived. And so began an Englishman's involvement in supplying a French village with its staple food.

The first task was to calculate the quantities. In a small village of 600, consumption is constant, and a look at the previous Tuesday's sales gave the totals for tonight's production: 70 long and 48 short loaves; 130 *baguettes*; six *pains de campagne*; four other different types of loaf, including one without salt and one wholemeal (French bakers are finally adding various types of brown bread to their range); plus 3.5 kg of *croissants*, *pains au chocolat* and *pains aux raisins*.

Just after 1 am the baker arrived, complaining of the heat. Stripped to the waist, he and Yannek took yeast from yesterday's production - the crucial element, according to the baker - plus salt, water and flour and, with the aid of an enormous 40-year-old mixing bowl, made the dough.

The flour, which came from a nearby mill in 50 kg sacks, contained 1 per cent *farine de seigle*: broad bean flour which ensures that the dough (and, therefore, the bread) emerged white rather than grey. The mass of dough was dug out into 11 kilo balls which would each make 20 loaves. Then, to the shout of "On attaque", the dough was cut mechanically and thrown into what looked like an old-fashioned mangle. It emerged in the shape of embryonic *baguettes*, which were laid on trays to wait for the fermentation to bring them up to their proper size.

The activity brought a healthy glow to the baker and his assistant. In the baker's case, it was enhanced by numerous cups of chicory-flavoured coffee laced with rum and a packet of *Gitanes* Maïs.

His immediate complaint was the lack of a family holiday this summer because of the recession, although he admitted that his wife was concerned for their only son, enlisted recently in the army and possibly on route to Yugoslavia. Professionally, he complained that the French were buying less and less bread. He predicted that supermarkets would soon ring the death knell for most village bakers.



Crust to crust: the output from the baker's apprentice

When I asked him if he made a living, he shrugged his shoulders. The shop provided a flat and income for the family; but when the annual increase in the price of bread was passed by the French government, it was greeted by his customers with howls of protest.

The only time his eyes lit up was at the mention of the Spanish and Portuguese grape-pickers, who would soon invade the area during the September harvest. They, at least, are still great bread-eaters.

At 3 am, the oil-fired oven was lit and the peace of the night shattered; it would reach its optimum temperature at 4.30. Until then, the baker retreated into a small kitchen and made his *pâtisseries* - apple, peach or plum tarts, *Farls* - or the local speciality, *farigasse* - which, he assured me, was a more remunerative occupation than baking bread.

This finished at 4.30 and, with the oven at its correct temperature, the baker and his assistant went upstairs to sleep.

Just before 6, the vital incisions were made in the tops of

the *baguettes* and the oven loaded with the first 120 loaves. The trays of *croissants* were given a final brush of butter and slid into a convection oven. By 6.25, as the dawn broke, the air was filled with aromas of baking bread.

The baker slid the first lot from at 6.40 but he was not too happy. He complained that the cold northerly wind had slowed the fermentation and that Yannek had allowed the oven to get too hot. He threw

me the first loaf, which I very nearly dropped. Although I have worked in commercial kitchens, this was the hottest thing I had ever held. As Yannek carried the first container up to the shop, two workmen called in for their *pains au chocolat*. Then the baker turned his attention back to the oven and, pleased to have an audience for once, shouted: "Now, watch an expert" as he began to load his oven with more loaves.

## Cheaper bubbly

**T**HE PROSPECTS of cheaper champagne have been enhanced by a quality-raising elimination of the inferior third pressing and a reduction in the maximum quantity of grapes permitted per hectare, plus a blocking of surplus still wines to prevent excess sparkling wine production from a vintage that may yield at least 250 million bottles - 20 per cent more than estimated sales this year.

will take some time to work through the blends, this is accompanied by a quality-raising elimination of the inferior third pressing and a reduction in the maximum quantity of grapes permitted per hectare, plus a blocking of surplus still wines to prevent excess sparkling wine production from a vintage that may yield at least 250 million bottles - 20 per cent more than estimated sales this year.

## Cookery/Philippa Davenport

## If it's September, it must be onions

**T**HE SIGHT of button onions and courgettes galore in the shops and markets is a sure sign that September is here. One other thing that unites the two is that they are ingredients in that each can be absolutely delicious or remarkably nasty, depending on the mercy of the cook.

Just to think about pickled onions, sozzled brutally with vinegar, sets my teeth on edge. On the other hand, the glutinous memory of a dish of butter, glazed onions served with a lot of lamb last Sunday sets the saliva sprouting.

Overgrown courgettes lack finesse. I would rather have good, honest marrow. Miniature courgettes are as bad as bloated big ones. I have only bought dwarf courgettes once - and that was once too often. "Did I strike unlucky with a particularly unfortunate batch or are they always tasteless, bordering on unpleasant? The price of the dwarf offerings from Thailand also was hard to swallow.

Smallish, youthful and very fresh courgettes are the only truly desirable sort. Ideally, they should be picked so recently that they come complete with flowers at their tips blooming brightly. Then, you can enjoy a double treat.

**GLAZED ONIONS**

(serves 5-6)

Apart from the chore of peeling, this is quick and easy. It is excellent with grilled chicken, chops and steaks, roasted meats and game birds. Unless you hand-pick each onion when shopping, it is best to buy 2lb or so. That way, all the onions used for this recipe can

be more or less uniform in size; save the runts and the fatties for other dishes.

**Ingredients:** 1½ lb pickling onions, scant 1½ oz unsalted or clarified butter, 1 slightly heaped teaspoon of sugar, a pinch of ground cinnamon (or freshly grated nutmeg or chopped parsley for serving).

**Method:** Peel the onions and choose a heavy-based pan or flameproof casserole into which they will fit, as near as possible, in a single layer.



Heat the pot and melt the butter in it. Add the onions and turn them to coat all over with fat. Sprinkle on the sugar, stir again, and cook half-covered over moderate to low heat (for 15-20 minutes depending on the size of the onions) until tender, streaked with gold and caramelised here and there.

Stir the onions occasionally as they cook. (Turn the heat right down, or cover the pan completely, if they are browning too fast or if too much moisture is being lost).

Onions cooked this way can be kept hot for some while without spoiling. Season and dust with cinnamon (or nutmeg or parsley) just before serving.

## COURGETTES FRIED WITH THEIR FLOWERS

(serves 4)

Life is too short to stuff a flower. Nor do I bother to dip courgette flowers in batter before frying. Simply dusting them with well-seasoned flour seems to me as much embellishment as they need.

**Ingredients:** 8 small courgettes complete with their flowers (plus extra courgette flowers if available); a few black olives (preferably tiny ones from Provence); half a lemon; the leaves stripped from a sprig or two of thyme (preferably lemon thyme); a little chopped parsley; olive oil; a little well-seasoned flour.

**Method:** Separate the flowers from the vegetables and slice the courgettes. Check that the flowers are clean and cut each one down its entire length on one side, from the tip of the petal to the juicy, thick base. Remove the pistil, fan the flower open so it lies flat and cut into two or three pieces.

Sauté the sliced courgettes until just tender in a hot pan barely filmed with oil. Do not cook them so long that the skins lose their fresh green colour. Transfer them to a shallow serving dish. Add the olives, herbs, citrus zest, a pinch of salt and a squeeze of lemon juice. Toss to mix and keep hot in a low oven.

Quickly add extra oil to the pan - to about a quarter-inch deep. Dust the flowers with well-seasoned flour and fry them very briefly so they become wafery crisp, yet retain their lime green and gold colouring. Drain the flowers well, arrange them in a garland around the courgettes and serve straight away.



# In Ceausescu's broken footsteps

*Romania is free, but David Pilling finds it is still a depressing place to visit or live in*

I might have guessed things were going to be bad in Romania as early as Stansted airport. "You're flight is

The fun really began at Bucharest airport with a mad scramble to push through customs. Later, I won-

The driver assumed I was Russian at first. "Gavareesh pa Rusky?" he kept growling in an insinuating sort of way. I finally convinced him that I spoke English, a language over

Ceausescu had built for himself, a chalk-white edifice with Greek pillars and, according to my guide, 5,000 rooms.

sight of a fat women in a greasy apron waving a gristly piece of san-

the art gallery, but it was closed. I visited a pizzeria. Unfortunately it

My plane lifted off the tarmac a few days later for my return to London. Unfortunately my luggage was not so blessed and had to be bundled on to another Taron flight to catch up with me 24 hours after. My rucksack has thus spent longer in Romania than I have. I plan to take it somewhere sunny as soon as possible.

# A safari that ends on the beach

**Richard Gilbert** divides his Kenyan holiday between the luxurious game lodges of Tsavo and the Indian Ocean

# Hard ride to Hanoi

the figures looked like the national debts of various South American countries.

dawn broke, we heaved  
the shutter to find the land-

**SKIING**

**KENY**

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**FOR MORE INFORMATION, TEL**

071-821 9901 OR YOUR TRAVEL AGENT



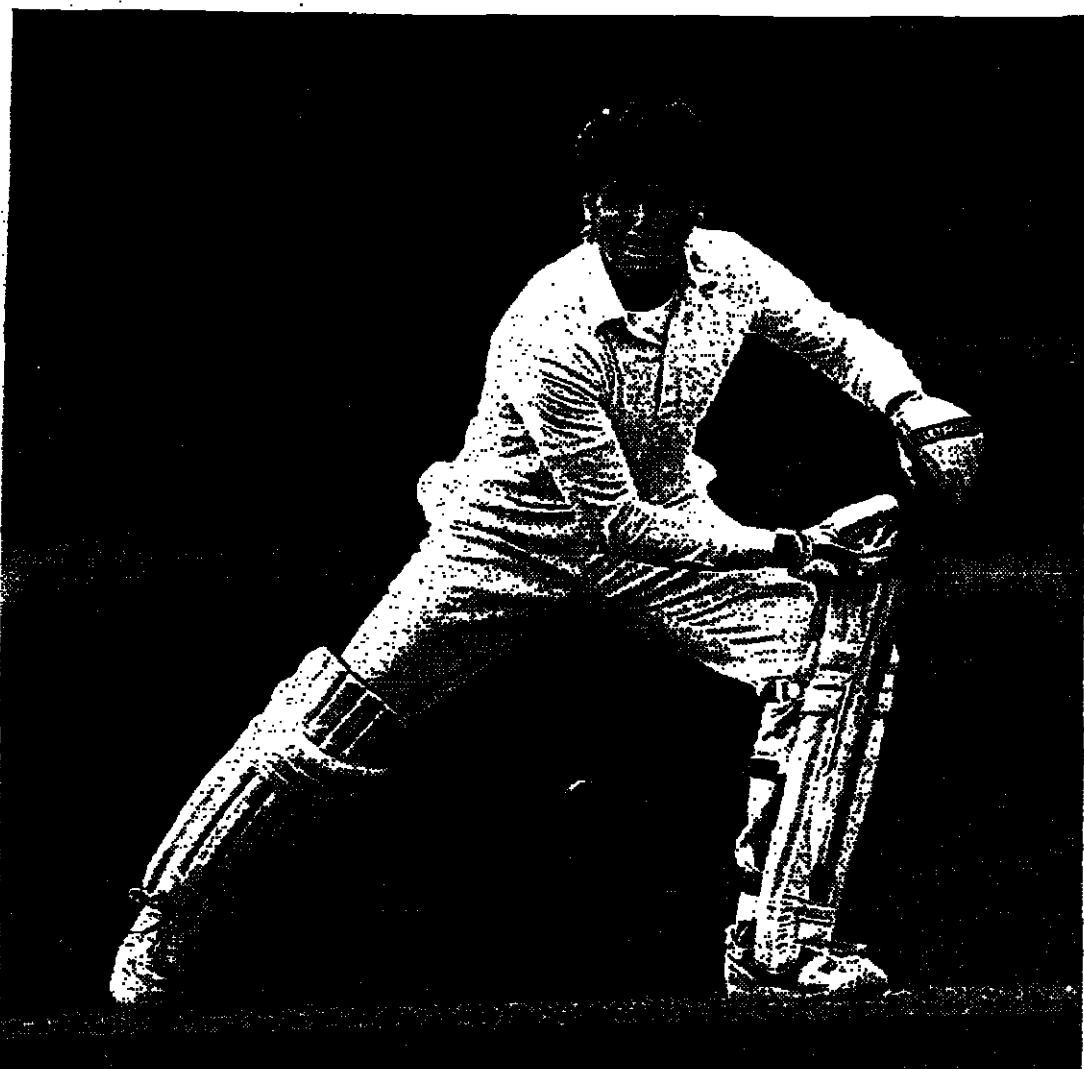




## SPORT AND MOTORING

Cricket/Teresa McLean

## Essex man triumphant



Team player: John Stephenson flourished for Essex in the absence of Gooch and Salim Malik

I MEAN no insult to Essex if I say that in some ways the bottom of this year's Britannic Assurance Championship is more interesting than the top. It is more surprising. Whereas most people expected Essex to repeat last year's success and emerge as county champions, few expected Durham to fail as resoundingly as they have done in their opening season as a first class county.

Durham entered the fray full of sound and fury, signifying everything from the neglected north to the ageing celebrity. They have ended the season in last place, winners of only two of their 22 games. With many players recruited from other counties, Durham will need a lot of practice before they work well as a team. David Graveney has not found it easy to lead the pugnacious Australian, Dean Jones, Ian Botham and Wayne Larkins, once musclemen of Northamptonshire's batting, in harmony with Durham's other acquisitions and with its young hopefuls, such as batsmen Stewart Hutton and Glendennan, notwithstanding. Durham scored fewer batting points than any other county. Their bowling lacked speed and suffered from a surfeit of tired medium pace. Durham's lovely grounds, such as the University one, under the cathedral's majestic eye, will doubtless produce lovely county cricket as they grow into true county grounds. In the meantime it

is hard not to feel a twinge of hope that local talent will play a stronger part next year, in preference to all Durham's famous refugees.

It would be unrealistic to pretend that county cricket is anything other than an exchange market nowadays. With Yorkshire going the way of all others, the home grown has lost its last battle with the free range. But that does not mean that the market system is unquestionably the most profitable one. This season has shown the value of a stable element, or at least the danger of always preferring innovation to stability.

At Chelmsford they are in no doubt that staying power and steady leadership are crucial. "Cricket is like an elongated game of chess," a club spokesman told me with satisfaction, trying to pick out one strength above another in the abundance of Essex's riches. "It's not like football, all over in a couple of hours. There's much more for a captain to do: boosting morale, making tactical decisions, making plans. The captain leads the team. We keep ours a long time - Graham Gooch now. Keith Fletcher for 12 years before him."

Essex have a tradition of loyalty from their players and boast of the way foreign signings, even potentially difficult ones like Salim Malik last year, come back for another spell. Chelmsford, Ilford, Southend and Colchester do not nourish prima donnas. Essex's recent triumph

in the county championship continues to boost their confidence, which improves their play.

Essex's loss of their best batsmen, Gooch and Salim, to the Anglo-Pakistani battlefield did not have a purely negative effect. "It's been more of a team effort this year," Team effort has been a key to this year's county championship. John Stephenson has flourished with the bat. Although Essex's highest bowler in the averages is only 17th (Derek Pringle), they have kept each other going. Peter Such, 19th in the averages, is taking over from veteran off-spinner John Childs as one of the team's assets.

Several other counties have done well with their slow bowlers. Hampshire have used Shaun Udal's off-spin cleverly. The same is true of Sussex with Ian Salisbury's leg-spin and Kent with Richard Davis's slow left-armers, with which he has taken 74 wickets. Now Somerset have nabbed Mushtaq Ahmed, Pakistan's globular and aerodynamic wrist spinner, as their 1993 foreign signing. Mushtaq is a welcome acquisition, a symbol of encouragement for spinners and those who relish their arts.

Spin is one of the tools Leicestershire did not use in their recovery this year. They are an outstanding example of the sort of team effort Essex value so highly. Talent, in the person of Phil DeFreitas, David Gower and Chris Lewis deserted Leicestershire. Not surpris-

ingly, spirits fell. The appointment of Australia's Bobby Simpson as cricket manager and resident tough guy in 1989 was a mistake. When he left last season, Leicestershire were next to bottom. This season they are eighth. Jackie Birkenhead has replaced Simpson. Their captain Nigel Briers has led from the front, building solid opening partnerships with Tim Bown. What Bown and Briers have done to help improve Leicestershire after a strained period, Alan Fordham and Nigel Felton have done for Northamptonshire, up from tenth to third.

This has been a prosperous year for journeyman counties like these, which lack stars but work hard with what they've got. If the arrival of four-day cricket has had any effect, I'm afraid it has slowed the game down even more and this has suited counties working their way along, with everyone making a small contribution.

Only Derbyshire, every individualistic, have used their fiery talent to blaze their own way, on and off, to another good year. Ian Bishop has joined Devon Malcolm and Dominic Cork in that county rarity: a real pace attack. Kim Barnett and the county's new Tiger, Chris Adams, have batted with flair and occasional brilliance. Were Derbyshire to develop a new, alien virtue of steadiness, they would soon be the best county in England. But one of the Derbyshire's qualities is that you never know. Nor do they.

Rugby Union/John Hopkins

## The revolution reaches Dursley

YEARS AGO, I played a few games of rugby for Dursley, the town where I grew up, halfway between Cheltenham and Bristol. My brother appeared for the first team. I struggled into the seconds when no one was looking and you get an idea of how improbable, though enjoyable, it must have been when I say that I played both hooker and full back, not to mention positions in between, in my dizzy spell in the colours of Dursley. Then, as now, Gloucestershire was a hotbed of rugby. Bristol and Gloucester were as friendly as rival politicians and the Forest of Dean and Lydney were places you went to only with a police guard. A middle level existed for teams such as Stroud. And then you came down to the Dursleys of this world. It was pretty coarse rugby even though we did not have to carry the posts out on to the pitch to play.

The changing rooms were in the local Memorial Hall which was not a hall at all but a glorified tin shed on the edge of the pitch. We did not have a headquarters. A local publican, who was Welsh and, ergo, interested in rugby, used to look after us. At this time kicking to touch was allowed from anywhere on the field. As a result play was a lot less open. The peel had become fashionable. Forwards, the donkeys, were beginning to be expected to do more than jump at a line-out and shove at a scrum. At Dursley, tactics were mentioned and plays thought up even though we were not well

equipped to bring them off. We were true amateurs, teachers, scientists, farmers, men for whom rugby was a relaxation to be played on Saturday afternoons and it was not taken very seriously.

All this came back to me last week when I spoke to John Darlaston, the secretary of Dursley, to find out what preparations had been made for the new season and how it had begun.

"The big change lately has been that we rebuild our changing rooms and club room during the summer," he said. "We did it using our own labour for little more than £20,000. We get sponsored to the tune of

£5,000 or £7,000 each year and we need to have somewhere to entertain them."

Sponsors were unheard of in my day and the only entertaining that went on was when Fred Wilcox told his agricultural jokes.

Dursley run four teams and have about 75 playing members. "We even managed to lend the opposition nine players for a fourth team game last season," said Darlaston.

Then he said something that really brought home the difference between then and now: "Training began in the fourth week of June. We've been at it two nights a week ever since." From what I remember,

training was fairly haphazard. Actually, from what I remember training was non-existent. Mine certainly was. I cannot remember ever doing any. Perhaps that is why I did not play very often.

Wherever you look in rugby, the talk is of leagues. Heineken have just paid £2.1m to the Welsh Rugby Union to sponsor the leagues in Wales for three more years and the leagues in England receive a similar sum from Courage. League rugby, as opposed to rugby league, is crucial for the Harlequins and Bath of this world but even at Dursley's level it has considerable significance.

"We hope to move up from the third division of the Gloucestershire League to the second division this season," said Darlaston. "We almost did it last year. The top four went up. We finished fifth only because we couldn't honour our match fixture against Caenacross."

Bob Dwyer, the coach of Australia, has said he thinks the new rule and man laws are making the game a combination of rugby league and basketball. That was not a consideration down in Gloucestershire. "The lads were a bit shocked when they watched the All Blacks push the South Africans back 40 yards and then not get the put-in at the

ensuing scrum," said Darlaston. "But they are not so concerned about the law itself. They don't think that at our level it is going to make much difference."

Dursley in the third division. Who'd have thought it? They have made an inauspicious start to this, their 40th season, losing two of their first three games. It has been difficult for their captain, Sid Smith, who was injured in pre-season training.

"It is a bit tricky trying to generate some fire in the last legs of the touch line," said Smith, a hooker turned back-row forward.

Good luck to Dursley, particularly this afternoon when they play Imperial Tobacco from Bristol in the first round of the Provincial Cup, south west region 2. I remember my time as a paying and playing member with affection. Those days long before the breathalysers were happy times - Fred Wilcox's jokes and all.

Motoring

## Treats to tempt the guilty speedoholic

IT IS MOST unfair. I am like an overweight chocoholic trying to kick the habit whose friends keep bringing gift boxes of sinfully fattening hard and soft centres. My problem is fast cars. Deep down, I disapprove of the kind that sacrifice the qualities which sensible motorists seek, simply to achieve performance that is unusable legally and indefensible socially on public roads.

But what happens when I am invited to drive one? I give in as easily as a chocoholic who yearns to be slim but cannot resist just one more praline.

Four fast cars, all quite different, have been my recent undoing: a Porsche 911 Carrera 2 cabriolet; an AC Mark IV Lightweight; a Subaru SVX and a BMW M5.

The Porsche, in an eye-catching emerald green, was a matching leather interior, was a Turbo-look limited edition. It had the Turbo's wide wheels and tyres, brakes and suspension but a normal 3.3-litre, air-cooled, flat-six engine producing 250 horsepower against the real thing's 320.

I have to say that 250 horsepower - and masses of torque (or pulling power) from only 2,000 rpm - seemed more than enough. Most of the time I had the car. It rained. It is imprudent to take liberties with 911s on wet roads but, driven with conditions in mind, the Turbo-look did not put a foot wrong.

The engine pulled so well low down the speed range that town driving was never fraught. On the open road, a gently depressed right foot in fourth or fifth gave vigorous acceleration. The effect of a prod on the pedal in second or third was like pulling a trigger.

At £87,889, I rated the Turbo-look 911 Cabrio a lovely toy for the wealthy and self-indulgent. One could say the same for the AC Mark IV Lightweight, only more so. This re-creation of the AC Cobra of the 1960s is the muscle car personified. A huge five-litre, 325-horsepower, Ford V8 engine has been shoe-horned into a tubular steel chassis topped with an open two-seat body, hand-beaten and rolled from aluminium sheet.

Before the war, AC advertised its individually-built cars as "true products of the Savile Row of motoring." The barrel-

chested Mk IV Lightweight is true to this tradition.

An AC Competition two-seater with cut-away doors and fold-flat windscreen cost £500 in 1937, when a Savile Row suit was about £15. Both have gone up a bit since then.

Savile Row suits now cost around £1,500. The key-in-hand price of a hand-built AC Mk IV Lightweight is close to £100,000.

For this you get a macho machine, arrogantly impractical as an everyday car but, even at legal speeds on public roads, joyously exciting to drive. It has been timed at 4.2 seconds from 0-62 mph (0-100 km/h), 10.6 seconds from 0-100

cruise control, power-operated windows and sun roof all are standard.

Satisfying, yet undemanding to drive, the SVX feels glued to wet or dry roads, makes little mechanical, wind or tyre noise and, remarkably, gave me a shade over 26 mpg (10.8 l/100 km). I cannot think how Subaru and its British concessionaire, IMI Group, manage to sell it for only £28,000.

Finally, the third-generation BMW M5. This has just gone on sale in Britain at £48,950, or £55,575 with air-bag, leather trim, air-conditioning, remote-control anti-theft system and electric seats, and without any chromium trim. The charge for getting rid of the glitter is £90.

The M5 combines the virtues of a four/live seat, big-bodied 5-Series saloon with super-car performance. While top speed is limited to 155 mph (250 km/h), it gets from 0-62 mph in 5.9 seconds and - more importantly for a business driver - from 50-75 mph in 6.9 seconds in fourth gear. The engine is a 3.4-litre in-line six developing 340 horsepower.

The 17-inch wheels give sharp steering response and seemingly unlimited cornering abilities, but at the cost of bumpiness on rough roads. Electronically controlled damping adapts nicely to a driver's mood, although the ride is on the firm side of luxurious.

The M5 has a dual personality. At 30 mph and a shade over 1,000 rpm, it pulls unprophetically in fifth gear. But drop into third and let the engine spin and it takes off like a rocket. Manual transmission would not be my choice in a car of this class but the gearshift is good and, in view of the power it has to transmit, the clutch is light.

Stuart Marshall tries out four very different fast cars

mph. On a private circuit, it must be breathtaking.

Never mind the modern engine. It has the appeal (and wood-rimmed steering wheel) of an aristocratic 1930s sports car. But its squat, ultra-grippy tyres and enormous disc brakes make it much easier and, in today's traffic, safer to drive.

When I visited the AC factory near Brooklands, some of the same artist-craftsmen who make the cars were running up the Merlin engine of a second world war Hurricane fighter they have rebuilt. A thrilling sound - but no more so than the song of a Mk IV Lightweight in second at 6,000 rpm.

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Of the quartet of high performers, none impressed me as much as the SVX. Styled strikingly with the windows curving up into the roof, it is a genuine four-seater with a good boot. Automatic transmission, air-conditioning, leather seats (the front ones heated, the driver's power-adjusted),

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## BOOKS/ARTS

## Fiction

## Country life, French style

"THE WAR was a sort of bookmark which divided the pages of history". *Daughters of the House* is full of solid imagery like that. Each of the 50 chapters is named after an object: "The Sofa", "The Red Suitcase", "The Fish-kettle", "The Chandelier", "The Green Scarf". Its descriptions are so vivid that you know the way around house and village; you know colours, textures, tastes and smells, the sensuous surface of everything, and the wider atmospheric effects of weather and light. Michèle Roberts has been compared with Colette and in miniature and immediacy, yes, there is something in it; also in the fact that the setting of this novel recalls Colette's world: nature in general and French country life in particular.

So far so good, and very good this side of it is. In a prosperous farmer's household in Normandy an odd mixture of relatives and relationships makes for tensions, disloyalties, pas-

being understandably bizarre and bitter in the post-war years of an occupied country.

What is best about the novel is its snappy, highly readable style and its moments of acute insight, of strange, original intuitions, as when Léonie, crossing the Channel, lives through the transformation of England into France in terms of language. Or when the two girls, so closely linked yet so inimical, play out their fantasies in bloodthirsty games of medicine or martyrdom. The *potitille* technique that looks so simple (very short sentences, minimal complexity of syntax, lots of colour, cumulative small effects) lends itself particularly well to these powerful thrusts of the irrational.

On straightforward plotting and narrative it is less effective, condensed to the point of confusion and with a crime-story technique of clues, hints and red herrings that often leaves one puzzled rather than curious. What happened in the cellar when Antoinette lost her shoe? What happens to Thérèse in the final fire? Above all, what are those visions about demonic possession or celestial visitation: hysteria or holiness, both or neither?

The overlap between dream and reality, supposition and fantasy and the facts of the case, is often too great. If the physical world is perfectly portrayed, every leaf in place, every scent recognisable, the everyday world of actual happenings and credible characters is much more weakly handled. Despite this it makes an attractive appearance in the Booker short list, an accessible and intelligent good read where good reads are sometimes scarce.

A final point which adds piquancy is that Thérèse's surname is Martin, which was that of St Thérèse of Lisieux, the Carmelite nun whose autobiography has gone round the world since she died nearly a century ago, aged 24. Michèle Roberts never reveals this, as it were, double billing, though there are hints for those in the know - the jacket with its portrait of St Thérèse, the acknowledgement to her *Histoire d'une Ame* in the Author's Note, the fact that the fictional Thérèse has written her own autobiography with the same title, and that her father has a habit of calling her his "little flower".

Isabel Quigly

## Portrait of the Révolution

IT IS remarkable and perhaps telling that there have been so few successful novels set during the French Revolution. One thinks of Dickens' *Tale of Two Cities*, Anatole France's *Les Dieux ont soif* and Balzac's *The Chouans*, but none of these would be widely accepted as great. There are even fewer works of fiction which have the revolution as their central theme, or even characters based on real historical figures.

It is equally curious that the narrative sweep of the revolution has intimidated legions of historians and defeated most. There are plenty of dry and rather unforgetting tomes; there are some entertainingly

A PLACE OF GREATER SAFETY  
by Hilary Mantel  
Viking £15.99, 871 pages

bizarre books by Richard Cobb. *Citizens* was exceedingly well-timed for the revolution's bicentenary, but was actively disliked by most historians, doubtless because in his successful pursuit of literary and popular appeal Simon Shama bent a few too many professional rules.

Such historical and literary difficulties have exercised generations of scholars and writers; so when Hilary Mantel's thumper finally went to press after 18 years' gestation, it was understandably accorded more than usual interest. Mantel has enjoyed the privilege of explaining ahead of publication what she is trying to achieve. To her the revolution is that dangerous thing, a passion, almost an obsession. She aims above all to show the private side of its central actors, to create around them a book one can think and live inside. What were Danton, Robespierre and Camille Desmoulins, their wives and mistresses too, like when the front door closed and

the public faces fell away?

Mantel is either confused or unsure how she wants to be judged. She might make a fine historian. Her eye for facts and anecdote is keen, her research certainly not lacking. Here is unashamedly a Parisian revolution, and in parts it is adeptly, impressively painted. But she wants to be a novelist, so it is fair to address the writing as well as the endeavour.

Two hundred pages of our heroes' imagined early lives takes some reading, and frankly not much happens; another 130 pages before Mantel has played out the tame conceit that Desmoulins was bisexual - until then he is pretty fevered anyway, so his confession comes as equal relief to the reader. The characters are consistent, but their portrayal is not remarkably original. Danton is done best, Desmoulins worst. Robespierre reminds one of nothing so much as the austere perfectionist in Waide's film *Danton*.

Could the action not have been hurried along towards the amazing period when our actors briefly contested and won arbitrary and absolute power? And therein lies the book's main weakness. This characterisation, background and all, only has meaning, hence interest, because there were astonishing events. Dispense with that and the actors have no stage, their personalities pale. So we are offered a bad, long novel with a better history tucked on.

A simpler test is whether the book is a good read. Mantel's style is too quirky to pass. Dialogue is a clumsy mix of modern and dated idioms which occasionally lapses into the ridiculous. Tenses are jangled anachronically, perhaps deliberately to signal temporal confusion as a parallel of political and moral chaos. Mostly, it jars.

Andrew Freeman

PRINTS AND drawings were Frits Lugt's greatest love, which explains why his name is not widely known beyond the circle of collectors. And yet it deserves to be, because Lugt (1884-1970), a self-taught Dutch art-historian, art-dealer, and connoisseur, created one of this century's major collections of Western art.

Although Lugt's interests were wide he is associated above all with his scholarly labours on Netherlandish artists between the 15th and 17th centuries. He built up an enormous collection of drawings and prints which in the Second World War was kept out of German hands by the simple expedient of mailing it in 60 registered envelopes to Switzerland.

In 1947, Lugt installed his growing collection in the Fondation Custodia in Paris. One hundred drawings have been lent to Amsterdam for *Drawings From the Age of Bruegel* in the Rijksmuseum Print Room until November 8. It marks the publication of Netherlandish and German Drawings of the XVth and XVIth Centuries of the *Frits Lugt Collection* (Dfl. 600), an exceedingly handsome catalogue by Karel G. Boon, former director of the Rijksmuseum.

In 1884 the Print Room was the scene of Lugt's triumph when, aged ten, he overcame the disapproval of "ageist" curators and was admitted to the study room. One wonders how he might have reacted to the redecorated Print Room, snazzy cherry-red display cases reminiscent of Dutch modern interiors of the 1920s.

*Drawings From the Age of Bruegel* is like a rapid tour of Netherlandish workshops between 1520 and 1620, with a diversion via Lichtenstein to south Germany and Bohemia. We find masters producing drawings for a striking diversity of purposes. Drawings for stained glass, tapestries and engravings, take their place beside careful studies of nature (a particular treasure is an album of coloured miniatures by Jacques de Gheyn II), very

## Drawn to the age of Bruegel

Patricia Morison visits the Rijksmuseum in Amsterdam

early life-studies of the nude, and landscapes - with and without happy peasants.

Two outstanding portraits are a reminder that the Habsburg presence meant fat pickings for artists. After being driven out of Denmark Christian II went to live in style with his wife's Habsburg in-laws in Brussels where he sat to Jan Gossaert. Perhaps Gossaert's florid pen drawing was intended to provoke a commission for a painting? None survives although we can be grateful for Gossaert's Hampton Court portrait of the king's three enchantingly grave children.

Lucas van Leyden's drawing of the Maximilian I was an opportunist move to profit from the market for commemorative prints of the late emperor. He based it closely on Dürer's woodcut but made it more opulent and Italianate. But in so doing the great master's proportions went seriously wrong so that Maximilian, represented as if showing himself from a palace window, looks positively deformed.

In 1520 Dürer himself was in Antwerp, where he was impressed by the high standard of living achieved by van Leyden and other successful colleagues. He also cast admiring eyes on Dutch womanhood. A large, freely-drawn portrait shows a young Antwerp widow of 38 who the artist had first glimpsed in a religious procession, dressed in the white robes of a beguine. Dürer shows her with eyes downcast

demurely enough but smiling ripe. It makes one wonder whether he did really intend her as model for the Virgin Mary reading.

As religion's crueler face showed itself in the Netherlands, there were pressing reasons why many artists left their divided homeland. Among the travellers were Roeland Savary and Pieter Stevens. Forest scenes in Bohemia by the former, views of Prague from across the Danube by the latter, are striking examples of Dutch artists exporting their famed landscape speciality. Goltzius's view of the country near Haarlem and Joos de Momper's winter scene, point the way to Dutch achievement in the next century.

Italy, of course, was the prime attraction for Netherlandish artists. Some never went home, like the Brill brothers and Jan Van der Straet. Stradanus, as erudite humanists renamed him, did well for himself. For Duke Cosimo I he designed 20 different hunting scenarios, many quite absurd. A typically unspurring scene in the Lugt collection shows a dozen would-be Papagenos catching starlings with string.

While Protestant propaganda may not make particularly attractive art, it is a striking feature of the exhibition. Old Testament imagery appealed to Calvinist patrons and alike to artists who saw themselves as committed, like the preachers and fighters, to leading the people of Israel from under the



Pen drawing of Christian II of Denmark, by Jan Gossaert

heel of the oppressor.

Scenes like Goltzius's *Idolatry of Solomon* and Swaneburgh's *Josiah Stamping out idolatry*, in which huge fragments of falling statuary tumble onto the priests of Baal, were the counterpart to the real-life desecration of churches and their images. The she-bear devouring the children who mocked Elisha could be read as an image of God's coming vengeance on Catho-

lics. The artist in question, Hans Bol, twice fled from the sack of his home by Spanish armies: his troubles were by no means untypical.

Some artists even tried a novel Calvinist iconography. *Christus Vera Lux* by the Leyden artist Lucas Cornelisz, shows a huge congregation kneeling in front of Christ while the pope and his cardinals exit to hell. Van Mander records that in Henry VIII's

reign Cornelisz found a good market for his paintings in England where he went to work as a cook.

A Leyden contemporary, Aert Claesz, may even have used sex to sell the message. His scene of a picnic *à trois*, in which a bewildered lady is flanked by two nobleman pawing at her breasts, could conceivably symbolise the bewilderment of the Netherlands, torn between two faiths.



Kurt Sanderling: 'Russia saved my life and gave me my career, but my feelings are ambivalent'

## The quiet conductor

Two years later it might be acceptable. There was no point fighting it. The public also had its taste - we did Tchaikovsky's Fifth Symphony several times a year, which is why I no longer have any desire to conduct it."

Sanderling's Soviet exile left an indelible stamp. It took him away from the sentimental German school of Tchaikovsky interpretation championed by Nikisch and Furtwängler, nurtured a respect for foreign cultures which his chauvinist German upbringing had denied him, and led to friendship with Shostakovich. "From the time he wrote his Fifth Symphony, it was as if he was telling our common life-story. His whole music was a protest against the life he was forced to live, and that was to a large extent my own life. No-one escaped the Stalinist terror, the awareness that people 'disappeared' without being able to talk about it. Russia saved my life and gave me my career, but my feelings are ambivalent."

Sanderling's reputation as a non-party leftist intellectual was in his favour when he applied to return to Germany. There was no question of settling in the West: it was difficult enough getting permission to leave Leningrad. "The Berlin I returned to was totally different to the city I had left, but I wanted a spot I could call my homeland. That doesn't mean to say I found East Germany beautiful and just, any more than the Weimar Republic and Soviet Union had been."

In his 17 years with the Berlin Symphony Orchestra he became known for his qualities as an orchestral trainer and his wide musical sympathies. Today his repertoire is deliberately small. He still conducts a handful of Shostakovich symphonies - the Eighth is a

favourite - and continues to enthuse over Tchaikovsky's Fourth, which he believes is easily misunderstood: "It's a tragic symphony. The main theme of the finale is based on a Ukrainian song about a lonely tree battered by the

Andrew Clark talks to Kurt Sanderling on his 80th birthday

winds of fate and finally trampled. If you treat it like a triumph, it sounds banal."

In recent years he has been increasingly drawn to music with a positive spirit, such as Bruckner, and is much in demand for Brahms - whose symphonies he will conduct in a cycle with the Philharmonia next year in London. His Beethoven, Schubert and Schumann are of the old school, with doubled woodwinds and other changes in instrumentation which he believes restore the "chorale-like" balance of

orchestral sound intended by early romantic composers.

He loves the Sibelius symphonies, but says they demand a degree of preparation that only a chief conductor has time to achieve. Of the Mahler canon, he restricts himself to *Das Lied von der Erde*, the Fourth and Ninth symphonies and Deryck Cooke's performing version of the *Fidelio* quartet, standing next to the producer on stage while someone played the piano. The next time it was the stage music in Act 2 of *La bohème*, and then something else. That's how I learned to conduct."

His operatic work has been sparse - despite the fact that he started out in the theatre, as a repertory in the Berlin company led by Bruno Walter. "You can't imagine how wonderful it was to conduct the *Fidelio* quartet, standing next to the producer on stage while someone played the piano. The next time it was the stage music in Act 2 of *La bohème*, and then something else. That's how I learned to conduct."

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Art fairs/Antony Thorncroft  
Bargains from the belly-up

AFTER the worst summer in the memory of even the oldest antique dealer the art trade is attempting to find new hope in the autumn fairs which are now underway. Chelsea is the place to buy a bargain this weekend. The Old Town Hall is taken over by the Chelsea Antiques Fair which, in its 72nd successive year, is the oldest in the land, while along the road at Chelsea Harbour interior decorators, who have suffered badly in the last two years, are huddling together for support.

But the real test comes next week when the first major specialist fair of the new season, the 20th Century British Art, fills the Royal College of Art for five days. This is the sector which has been hit hardest by the recession. Six of last year's 52 exhibitors have since stopped trading, including such major names as David Messum and Trinity. And although their places have been filled by the likes of Agnew's and Berkeley Square Gallery, there will be a feeling of apprehension when the doors open on Wednesday.

Colin Phipps of Austin Desmond & Phipps, who is chairing the Fair's advisory committee, reckons that prices will be marked down around 25 per cent on a year ago. And then the haggling starts. You could say that now is an excellent time to buy that Matthew Smith, or the Tristan Hillier that has been quite out of your price range since the speculative boom of the late 1980s. But it is possible that prices could go even lower if more major dealers go belly-up, forced by the short sighted banks to put their stock on a weak market via the auction houses.

Even so serious collectors now have the pick of an attractive crop of pictures, not only from distress sales but because dealers are now being forced to dispose of the works that they previously held back for their private delectation. It could be the best fair for buyers for some time.

There are sales taking place. Phipps own gallery has disposed of five paintings by Ivan Hitchens in recent months. Three years ago they would each have averaged £30,000; now they were going for around £18,000. It is interesting where they came from. One was from stock, one was acquired at auction (or rather after the auction for a bargain price), one came from another dealer, and two came from clients desperate to cash in their art.

Strangely, while the impulse buyer, prepared to pay up to £1,000 for a painting, has disappeared, and the big punter splashing out over £50,000 is very rare, the old fashioned art addicts are still happy to spend around £20,000 acquiring the painting that they have always lusted after. And these tend to be the more challenging works: it is the simple decorative paintings that have become virtually unsaleable.

The 20th Century Fair usually does well. Highlights this year include sculpture, priced from £300 to £5,000 on Gillian Jason's stand; John Bellamy has created prints for the first time, on offer at Berkeley Square; Julian Hartnoll is showing the late John Bratby; while Michael Parkin and Agnew's are both selling Sickert. Most of the major post-1900 British artists will be available, priced at 1986 values.

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# Cultures before Columbus

**T**HE quinqucentary Columbus's landfall in America has been the source of considerable soul searching in the U.S. While mainstream Mr and Ms America may be happy to celebrate Europe's Transatlantic leap, the original new worlders (not to mention the watchdogs of political correctness) are demanding a more egalitarian perspective for a civilization which the "white gods" from the east wrought on the indigenous peoples they encountered.

A *palm* of Brancusi-like simplicity and elegance demands to be admired as pure form, despite its presumed religious function. A Totonic sculptor carved it and in which only one half of the face is shown, the other half left undefined and emerging from its stone casing. It is all one can do to resist images of Michelangelo's noble figures reclining on their elbows, as if so thoroughly imbibed by Moore that it seems here strangely familiar and modern. So too the Huastec sculptures and a Veracruz jaguar mask which has been identified as a deity that is pure *Sure Wars*. Mexico can surely boast some of the most alien of all human art

from Mayan iconography too. As in Egypt, much ancient Mexican art needs to be deciphered in as precise and literal a manner as the writing. The official and ceremonial places are interspersed with pottery and other items of everyday use, including rare wood-carvings. These are much more spontaneous and imaginative, showing the exuberance of the housewife and the craftsman's tradition. In the human and animal-shaped vessels of the Colima potters lies a virtual menagerie of local wildlife and domestic scenes – a baby, an emaciated tunicless, an acrobatic monkey, a vulture, a bird, real sympathy and inventively adapted to shapes that can also function as vessels.

One surprise is the virtual silence in which the exhibition passes over the revolution currently taking place in Mayan studies from the deceleration of the Mayan hieroglyphic script. Since the script is itself a pictorial code whose understanding is intimately linked to the symbolism of Mayan art, this new insight lifts a veil on the Mayan pictography too. As in Egypt, much ancient Mexican art needs to be deciphered in as precise and literal a way as writing. The more official and ceremonial pieces are interspersed with pottery and other items of everyday use, including rare wood-carvings. These are much more spontaneous and imaginative, showing the exuberance of the household or village craft tradition. In the human- and animal-headed masks of the Calima potters lies the virtual menagerie of local wildlife and domestic scenes — a baby, an emaciated hunchback, an acrobat — keenly observed with real sympathy and inventively adapted to shapes that can also function as vessels.



The show has been laid out with a keen eye for design and lighting, with adequate wall texts including evocative quotations from ancient Mexican texts. The designers have made the most of an awkward ramp at the entrance by arranging a series of intimidating Huastec statues in sentry-like rows. The layout of material is by regions, which only partly correspond to the major cultural entities (Olmec, Maya, Aztec, etc.) and cuts across both media and periods. No system is perfect but this is a half-way measure which fully serves neither an archaeological nor an artistic end.

The handsome catalogue is itself no small design achievement whose superb illustrations provide much food for further thought and admiration. Also the text – a direct translation of the Spanish version – is rather idiosyncratic in its selection of themes and suffers from the user-unfriendly flow of academics. The short bibliography ignores most of the major English-language studies.

The gold which fuelled the Conquistadores ravages is conspicuously absent from *The Art of Mexico*. This is only partly the result of the mindless orgy in which the finest handwork

of the American goldsmiths was consigned wholesale to the melting pot by the Spanish invaders. Unlike their South American contemporaries, the Classic and earlier cultures of Mesoamerica did not much value the yellow metal, importing it from the south only sparingly. The Hayward show rightly avoids any hint of gold lust, focusing instead on the myriad other artistic achievements of these most ill-fated of peoples.

**The Art of Ancient Mexico,  
Hayward Gallery, September  
17 - December 6, 1992**

**R**OBERTO Gerhard's comic opera *The Duenna* was staged for the first time at the beginning of this year, 22 years after his death. The audiences in Madrid and Barcelona were delighted (as was Max Oppert, who wrote about it here); now Opera North has mounted a second production of it, which should enjoy a similar success.

Substantial support has come from the European Arts Festival, quite rightly. Gerbard was Catalan-born or Alsatian and Swiss parents, studied composition under both the great Spanish nationalist Pedrell and Arnold Schoenberg, exiled himself to England at the start of the Franco régime, and in 1947 completed his only opera — to a 1775 English text by the playwright Sheridan, author of *The Rivals*.

The *Duenna* had originally been produced at Covent Garden as an "opera," i.e. a prose play with songs in verse. What Gerhard made of it amounted to a "Zarzuela Grande": a larger, through-composed version of the popular Spanish *zarzuela*, something between folk-opera and musical comedy. Gerhard set the original songs to new ditties, and expanded the number of speeches into serious arias and ensembles, left some minor dialogue to be spoken, and dressed the whole in richly sensuous music, seemingly "eclectic" — folk-Spanish, candid touches of Falla, *Meister-singer*-ish meditations, Schoenbergian chromatics, a travellian glitter.

Precisely because of that compendious eclecticism, the

score found no favour when the BBC broadcast it in 1949, nor at a 1961 performance in Germany. But we are wiser now: with post-modernist ears, we can hear a composer's veering between different idioms as no more opportunist or insincere than following an Allegro in G with an Adagio in E-flat. Furthermore, as we know now, in the late works that were to establish Gerhard's international reputation – the Concerto for orchestra, and the dazzling ensemble-pieces *Libra* and *Leo* – all those strands would be woven into a unique, utterly personal vocabulary.

**David Murray on  
Opera North's  
production of  
'The Duenna'**

In *The Duenna*, they were just a bit more separated. The Schoenbergian passages lend emotional depth to Sheridan's comedy of elopements and disguises; the open-hearted show-numbers vie with the best of Bernstein; the dancing Spanish is instantly infectious. Antoni Ros-Marbà, who conducted the Spanish premiere, draws the best from the Opera North band here.

An eager, mostly young cast put their music across to excellent effect, though only a couple of them can speak Sheridan's sophisticated words in convincing style. As a fully rounded character, Andrew Shore's Don Jerome, the heavy father, is head and shoulders above the rest (as is his wont).

but the baritone Adrian Clarke makes Don Ferdinand a colourable Regency blade, and the two flighty heroines are fervently sung by Pamela Heler, Stephen and Susan Chilcott.

As lovers Don Antonio the  
tenor Gordon Wilson looked a  
dull stick (even in the first  
scene, a straight lift from *Bar-  
bier de Seville*) but warmed  
steadily to his musical bore  
Gillian Knight lent her sea-  
soned wiles to the scheming  
Duenna, like Eric Roberts as  
the risible Portuguese Jew. A  
hint of Political Incorrectness  
there! - the production tried  
to pretend that being Portu-

With spectacular help from Sue Blane's unbridled fanciful designs, and the more equivocal asset of a troupe of dancing mimes, the show wears a bright face. One could still wish that the director, Helena Kaut-Howson had found more gestural detail for her principals: in the orchestral interstices of their numbers they often looked stranded and blank, reminding us too plainly that period-comedy needs professional actors. Still, those numb moments were only flecks on the action: Gerbard's effervescent score was more than enough to carry the evening.

**Further performances in Leeds Grand Theatre September 19 & 25, October 2; Manchester Opera House October 21, Nottingham Theatre Royal October 30, Hull New Theatre November 5 Sponsored by European Arts Festival, Yorkshire Electricity**

# Camp and corn rule

THE EMPEROR Hadrian - you remember - liked boys. No wonder, then, that he is the subject of a new show by the all-camp almost-all-drag company Bloolips. In he comes; he throws down his sword, shield, helmet and breastplate; heaves a sigh; "Can't stand wars." Now he dons the gilded laurel crown; fluffs out his long hair; greens himself; "Much more so." From then on, Hadrian keeps changing from one male frock into another. In one *virgine* appearance, he wears feathered fringes and high heels. Now you see why the show is called *Get Flur*.

The Bloolips troupe loves not

only camp but also corn. A servant goes to the oracle, to fetch the priestess — "She who sees and knows everything." He knocks on her door. From offstage, she calls: "Who is it?" He gives us a weary look and remarks: "Not very good, is she?" Hard would he be of heart who did not giggle at some of this tosh. Often it's as if *Up Pompeii* had been carted out of the closet, as when two slaves prod a drunken corpse in a frock: "He's like a left over from the Praetorian Guards' scratch-your-eyes-out Drag ball."

From time to time, this absurd affair is a hoot — but only from time to time. On this

The Bloodies performers are happy to let the show stop as often as possible. This is a nudg-nudge theatre, far from brisk, low on energy, but full of nods, becks, winks. It keeps sagging in between, the gags. Still, some of the gags are good. Hadrian tells the Sibyl about the way his love for the boy Antinus grew. "Then I began to pine and suffer - Oh, it was glorious."

It also liked Rim and Fellows. Tay Baker, the two new belly dancers from Jerusalem, who chant in unison: "We believe that there is one God and his name is Sandy." I even joined in. Fanny's song: "Sandy, Sandy, You are so sandy... Give us

**Get Hur continues at the Drill Hall Arts Centre, London N1.**

# Drama from Balzac to Sophocles

**T**HE CLASSIC Serial this month on Radio 4 is Balzac's *Père Goriot*, with Stephen Fry as a handy Balzac and Douglas Hodge as the socially ambitious Eugène. The eponymous Goriot is scorned by Eugène and the other lodgers *chez* Vauquer, especially the cynical Vautrin (David Ross); they do not know that his girl friends are not his mistresses but his daughters. The tale, dramatised by David Hopkins, has not yet blossomed, despite the author's commentary, but

is doing well under Kate Rowland's direction, with a helpful Goriot by Geoffrey Banks.

The Monday Play was Murray Watts's *The Fatherland*, about life in Soweto, only it wasn't broadcast. Instead, Keith Waterhouse presented sundry readings from comic English writing.

Still, drama-addicts like me had all the half-hours - *The Food of Love* by Joanne Maguire on Tuesday, about love and diet; part three of Christopher Lee's *The House*, later in the day, about Members of Parliament; the first of six parts of Eric Williams's *The Wooden Horse* on Wednesday.

Shaps, their speech so ably contrasted with the magisterial delivery of the higher-ups. However often you hear the legend, it never palls.

Last week Radio 4 took us for a buggy-ride round the French quarter of New Orleans. Last night the same director, Piers Plowright, gave us a

with the Irish novelist Timothy O'Grady and read from their work. There is too little real intimacy, despite the personal quality of the talk. Moreover it is not always easy to separate reading from interview.

More intimate was Tudor Parfitt's view, in Radio 4's *King Solomon's Tribe* on Thursday, of the Lemba in Zimbabwe and South Africa, who claim to be Jews, stemming from "Sena". The prophet Nehemiah, who gave much space to

# Chamber

**S**TIMULATED BY the archaizing Cobbett Prize for English chamber music, the student Britten wrote two short single-movement *Phantasies*, the second of which, his Op. 2, for oboe and string trio (1932), was the opening item of Nash Ensemble's 20th century concert (second in a series of four sponsored by IRM) at the Purcell Room on

Thursday, Oboe soloist (but the part does not steal the limelight) Gareth Steele, violinist Marcia Crayford, violist Roger Chase and cellist Christopher van Kampen revealed the work as a taut and flagrantly impassioned sonata argument, an achievement of extraordinary precocity. Their performance was notable alike for warmth and biting immediacy; and they found a great deal of colour in the music's frugal textures.

The other works on the programme (apart from Britten's Op. 83 cantata, *Phaedra*, for

mezzo and small orchestra, with which the concert ended) had a Cobbettish character, two of them taking the string trio and adding a contrasting instrument, the other, Ravel's severe, searching but very felicitously devised Sonata for violin and cello of 1920, subtracting an instrument. The latter piece was realised by Crayford and van Kampen with compelling brilliance.

## fantasies

movement of Colin Matthews's *Three-Part Chaconne* for the three strings and left hand piano was ideally Cobbettish in its declared use of the 17th century form; but gaily splashed with bass notes from the improvisatory piano (lan brown) this chaconne sounded nicely offbeat and modern: the piano takes off into a typical Matthews toccata towards the end.

Jonathan Harvey's new and specially commissioned *Lotuses* casts a flautist (Philippa Davies) with a string trio that enters plays in *flautando* mode (as in harmonics), and indeed adopts a variety of unorthodox performance techniques, to create a 20-minute ethereal dance of a piece, very free and bright and spiritual. Perhaps Harvey's vigour of invention here was unequally matched to his new Agelam; but there were some select moments, particularly as afforded by that most readily seductive of instruments, the bass flute.

**Paul Driver**

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## TELEVISION

SATURDAY

## BBC1

7.25 News. 7.30 Halls of Specimen. 7.50 Babel. 8.15 The New Lassie. 8.30 The Jewel. 8.50 Parallel. 9.10.55 Film: Rogues of Sherwood Forest.

12.10 Barney Bear Double Bill. 12.27 Weather.

12.30 Grandstand. Introduced by Steve Rider. 12.35 Football: Reflecting on the European club competitions. 1.05 News. 1.10 Paralympics from Barcelona: Britain hopes to improve on its haul of 182 medals in Seoul. 1.25 Racing from Newbury. The 1.30 Hibernian Nursery Handicap. 1.35 Paralympics. 1.55 Racing: The 2.00 Courage Stakes (United States). 2.05 Basketball from Cardiff. 2.25 Racing: The 2.30 Rokeby Farm Mill Reef Stakes. 2.35 Basketball. 2.55 Racing from Newbury and the Curragh. The 3.00 The Coral Autumn Cup (H'cap) from Newbury, and the 3.15 GPA National Stakes from The Curragh. 3.20 Ice Hockey from Wembley Arena: Highlights of Montreal Canadiens v Chicago Blackhawks. 3.50 Football Half-Time. 4.00 Athletics from Seoul: The Fourth Junior World Championships. 4.10 Final Score. Times may vary.

5.05 News.

5.15 Regional News and Sport.

5.20 Dad's Army.

5.30 Big Break.

5.40 Bobby Davro: Public Enemy No. 1.

7.00 Bruce Forsyth's Generation Game.

8.00 Casualty. Paramedic Josh Griffiths is involved in a motorcycle accident, and new manager Kate Miller is inundated with complaints about under-funding and staff shortages. Starring Joanna Foster and Ian Bleasdale.

8.50 News and Sport. Weather.

9.10 Film: The Witches of Eastwick. Comic fantasy about three women who yearn for male company. Unaware of their powers, they summon the Devil. Starring Jack Nicholson, Michelle Pfeiffer and Cher (1987).

11.05 Match of the Day. Desmond Lyness introduces highlights of two of the day's top FA Premier League fixtures. Commentary by Barry Davies and Tony Gubba.

12.05 Film: Harvest of Hate. A young couple uncover a terrorist training camp in the Australian bush. Starring Denis Grosvenor (1978).

1.30 Weather.

1.25 Close.

## BBC2

6.40 Open University.

8.00 Look Stranger. A programme about Andrew Campbell, a former Black Watch colonel, who, after years of service overseas, found happiness in Wales.

8.25 Film: M-Met by Moonlight. War adventure, starring Dirk Bogarde. During the German occupation of Crete, British agents are assigned to capture a Nazi general (1957).

9.05 Film: Battle of the River Plate. War story about the cornering by British forces in 1939 of the German battleship Graf Spee. Starring John Gregson and Anthony Quayle (1957).

7.00 News and Sport. Weather.

7.15 Late Again. Highlights from last week's editions of The Late Show.

8.00 The Cosmic Joke. By the year 2000, the world's population will number more than six billion people. In the first of two programmes, writer and scientist Dr John Goodfield considers how different countries deal with over-population. She begins in Mexico.

8.50 Dances with Wolves. The innovative choreographer has been developing his style of dancing in Brussels for several years, winning international prizes for his company, Ultima Vez. The film includes a performance of Rosefield, winner of last year's IMC Dance Screen Award; a piece which uses material from four of Wim's most successful works.

9.40 Time Passing. Film portrait of baby Victoria Wright's first year.

9.50 The Brain Drain.

10.20 Steadfast O'Connor. A programme about the Irish singer/songwriter.

11.05 Film: High Plains Drifter. Violent Western, in which a drifter is enlisted to help rid a town of outlaws who have been released from prison. Directed by and starring Clint Eastwood (1972).

12.50 Close.

## LWT

8.00 TV Am. 8.25 What's Up Doc? 11.30 Movies. Movies. Movies. 12.30 The TV Chart Show.

1.00 ITN News. Weather.

1.05 LWT News. Weather.

1.10 The Smurfs. Animation.

1.25 The 1992 Biggin Hill International Air Fair. Biggin Hill celebrates 75 years as Britain's most famous RAF fighter station.

2.25 Starting from Scratch.

2.55 Matlock.

2.55 WCV Worldwide Wrestling.

4.40 ITN News and Results. Weather.

5.00 LWT News. Weather.

5.05 Cartoon Time.

5.15 Dinosaurs.

5.45 Catchphrase.

6.15 Barrymore.

6.55 Film: Crocodile Dundee II. Mick Dundee, the Aussie adventurer, clashes with drug barons in Manhattan. Co-starring Linda Kozlowski (1988).

8.50 Dame Edna's Neighbourhood Watch. New series. The housewife megastar hosts a revolutionary new game show, assisted by Madge and Sister Beedogood.

9.30 Championship Boxing. World champion Chris Eubank fights American Tony Thornton to defend the WBO Super-Middleweight title. Jim Rosenthal presents the action live from Glasgow's Scottish Exhibition Centre, with commentary by Reg Gutteridge and former world champion Jim Watt.

10.05 ITN News. Weather.

10.10 LWT News. Weather.

10.15 Film: Red Heat. Action thriller, starring Arnold Schwarzenegger and James Belushi. The Austrian bodybuilder plays a Russian detective who teams up with a Chicago cop to capture a drug dealer (1985).

12.20 The Big E.

1.25 Get Stuffed. ITN News Headlines.

1.30 New Music.

2.25 Get Stuffed. ITN News Headlines.

3.40 Indy Car Racing.

3.40 Rhythm 'n' Reg.

4.10 Couch.

4.35 The Hit Man and Her.

## CHANNEL4

6.00 Early Morning. 10.00 Outburst. 10.30 Gaz-zette Football Italia. With Paul Gascoigne. 11.30 American Football: Play Action. 11.55 The Loud Driver's Waltz. 12.00 Get Smart. 12.30 pm Songs and Memories.

1.00 Film: Blackmail. Edward G. Robinson plays a man who is released from prison after serving a sentence for a crime he didn't commit (1936).

2.30 When I'm Rich. British animation.

2.35 Racing from Ayr and the Curragh. Including the 2.40 EBF Top Flight Leisure Maiden Stakes. 3.10 Auchincloss Water Graduation Stakes. 3.40 Ladbrokes Silver Cup (H'cap). 4.15 Ladbrokes Gold Cup (H'cap) and 4.45 Johnnie Walker Whisky Handicap from Ayr, and the 3.15 Smurfit National Stakes and 3.55 Jefferson Smurfit Memorial Irish St Leger from The Curragh.

5.05 Brookside.

6.30 The Big 5. The search for Britain's best wheelchair basketball team reaches its climax as the Sheffield Steelers take on the Milton Keynes Aces in the final. Commentary by Simon Reed and Gary Kinsella. With subtitles. Last in series.

7.00 The World This Week. Sheena Mansel presents more international affairs.

8.00 Children of Eekdale. Following the lives of the Raws, a family of seven who have lived on a heath in Eekdale, North Yorkshire, for 18 years. Part of a retrospective season of documentaries by Barry Cockcroft.

9.00 Court TV: America on Trial. Cynthia McFadden presents real-life drama from American trials.

10.00 Let the Blood Run Free.

10.30 Film: Alias 'La Gringa'. Thriller by Peruvian film-maker Alberto Durand, starring Germano González as an outlaw who risks his life to help a friend. (1991).

12.25 Australian Rules Football.

1.25 Twilight Zone.

2.10 Close.

## REGIONS

ITV REGIONS AS LONDON EXCEPT AT THE FOLLOWING TIMES: ANGLES: 1.05 Anglia News. 1.10 Starting from Scratch. 1.25 Chequered Flag. 2.05 McCloud: This Must be the Place (1974). 3.00 Anglia News and Sport 10.25 Regional Weather.

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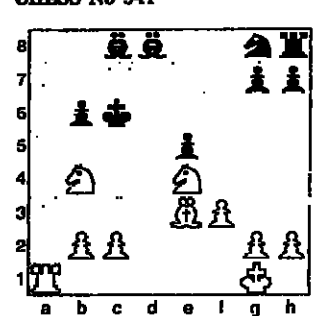
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## CHESS/BRIDGE

IT HAS been Bobby Fischer's week in Sveti Stefan. Following his shaky start to his \$3m (£2.7m) rematch with Boris Spassky, Fischer has won three games in succession. Spassky himself missed a chance for three wins in a row when he spoiled a won ending in game six, but then fell back into the defeatist syndrome which haunted him in their world title series at Reykjavik.

When Fischer led 4-2 after nine games, Spassky asked for a postponement due to a kidney ailment. Off-board, Fischer has insisted on a glass screen between players and audience, and wants the playing area enclosed in a giant glass bell when the match transfers to Belgrade after one side wins five games. His credibility for a further high-profile series against Karpov, Short or Kasparov is growing (R. Fischer, White; B. Spassky, Black; ninth game 1992).

1 e4 e5 2 Nf3 Nc6 3 Bb5 a6 4 Bxc6 dxc6 5 0-0 f6 6 d4 exd4 7 Nc3 e5 8 Nf5 Qxd1 9 Bxd1 Bg4 10 f3 Bf1 11 Nc3 Bb6 12 Be3 b6 13 a4 0-0-0 14 a5 Kf7 15 e5 Be7 If fxe5 16 Ne4 with advantage. The Ruy Lopez exchange variation 4 Bxc6 is an old Fischer favourite which has since gone out of fashion. Spassky should have been sus-



Fischer v Spassky, 9th game, final position. Spassky is only a pawn down, and his king can escape check at b5, b7, e7 or d7, so why did he give up?

Solution Page XVI



I AM convinced there is something in the British psyche that despises democracy. It is not just cynicism about politics: we want to be led and governed, and short of a poll tax will submit to the most harrowed nonsense coming from a minister.

Yet watching the *citoyens* prepare to exercise their sovereignty, even I am amazed that the British public should be so biased at the democratic enormity of enacting the Maastricht treaty without even a semblance of popular consent.

To John Major, it is a special British quality. "Uniquely in the Community," he boasted to an assembly of Eurocrats in London last week, "we in Britain will scrutinise the (Maastricht) Bill line by line, clause by clause and vote on it in the same way."

But "We in Britain" are the 651 MPs. In case any of the applauding throng missed a heartbeat by thinking that we might include as - you and me - the prime minister spell

## Aux armes, citoyens

Andrew Adonis wants a British referendum on Maastricht

it out: "I believe myself that this - Parliament's unique scrutiny - is a more effective scrutiny than referendum where many votes may be cast on matters wholly unrelated to the Treaty."

Were the issue not so grave, we might be forgiven for thinking this another of Major's elaborate jokes - you know, like "there is going to be no devaluation." One can just picture the Community's leaders wise-cracking over a jolly week-end of treaty-making. ("Submit it to the people? Ha ha! Who knows what might they be thinking about in the polling booth! Come to think of it, isn't that true of elections too, Helmut?")

Other jokes in the same speech

give credence to the charitable view. Such as: "The Maastricht Treaty is a product of compromises by 12 nations." Silly us, who thought it was 12 governments who negotiated the treaty, subject to the consent of their nations afterwards.

To be fair, Major's slip was Freudian. For in Britain, the all too serious truth is that the government is the nation so far as European Community affairs are concerned. However long they waffle on about the lines and clauses, MPs are not able to change a dot or comma of Maastricht. It would fall if they did. They can give only a straight vote for or against - which makes ratification an ideally simple issue to put to a referendum.

If the French people give them the chance, it is a foregone conclusion that Britain's MPs will vote "yes". Whichever way they will cast their votes on matters wholly unrelated to the Treaty. Three-line whips are not the best incentives for objective scrutiny. Some Tories opposed to the treaty will vote for it out of party loyalty; others in the hope of promotion; a few so as not to endanger that constituency favour or foreign trip.

True, we had a general election. But with all three parties agreed on Maastricht, it offered precisely zero choice on a single European currency and common Community foreign and security policy. The parties engaged in a conspiracy of

silence. So British ratification of Maastricht will be no more than Major assenting to his own treaty.

Only a referendum will prevent that democratic fraud. Maastricht is among the most significant changes to the UK constitution this century. Parliament should not agree to it without a positive expression of the electorate's will. Since the election manifestly failed to provide one, a referendum is imperative. Forget the "parliamentary sovereignty" walls. If we are indeed a democracy, MPs have no moral right to reshape our constitution if they have good reason to believe a majority of citizens may be opposed to them. Imagine the outcry if, in

response to the current titbits, the government next year tried to abolish the monarchy.

Yet a currency union is of far more constitutional significance than the survival of the monarchy - as this week's turmoil should have brought home to the nearest mortgagee.

Moreover, the referendum is not foreign to Britain. Internationally, it is increasingly employed as a democratic hurdle for major constitutional change. There are only four democracies in the world which have never used one for that purpose: India, Israel, Japan and - did you guess? - the Netherlands.

I would vote "yes" should we be asked our view. Britain is already part of a federation, and Maastricht, for all its shortcomings, is necessary to strengthen and codify it.

Nothing, though, is more calculated to generate bitter disillusion with the Community, even to destroy it, than to impose it on the voters by royal decree.

## Little rays of light

Michael Thompson-Noel



IT IS TIME for Hawks & Handsaws to toss its hat into the ring and launch one or two campaigns aimed at brightening our lives on this weary, wrecked planet.

I am not talking about big things - the ozone layer, fox hunting or pre-millennial tension. I am talking about small things, such as the barbaric decision by England's cricket selectors not to include David Gower, a foppish but inspired batsman, in the England team to tour India this winter.

I have no interest in cricket. It strikes me as basically silly. But it gives pleasure to many, and that is good. Much to its credit, *The Observer* last weekend launched its RGC - Restore Gower Campaign. What caught my eye was the quote from a Gower supporter who said: "Gower is the gifted non-conformist being rejected by the puritans out of a mixture of animosity and jealousy. They don't like his casual approach and especially the fact that he can appear casual and still perform at the highest level."

That was my vote at once. Indeed, so impressed was I by the RGC that I am keen to organise something of my own. All week I

## HAWKS & HANDSAWS

have been locked in policy talks with the advisers who shape and mould this column. Some of them you know: Miss Lea, my executive assistant; my agent, Harriet Halfshare; Juliet Fetherbrayne, who handles my PR; and Sheikh Wali Al-kalabi, who advises me on asset management and what the rich are thinking.

The first idea we pondered was also the most obvious, an NLHNL - Numerous Long Holidays for Norman Lamont Campaign. Britain's chancellor of the exchequer would be a suitable candidate for our largesse, for Hawks & Handsaws was the first column to suggest that his tenure might not be long-lived. We have since realised that Norman's grip on office is indissolubly linked to the prime minister's fate. They will hang together, or prosper and survive. In the meantime, numerous long holidays for Norman Lamont could cause as much rejoicing as the reinstatement of David Gower.

The next idea we considered was the FSRNWNASSETTIPUTTC - Find Something Really Nice to Say When NASA's Seti Programme Comes Up Trumps Campaign. On October 12, Columbus Day, at 3pm Atlantic Standard Time, NASA astronomers will launch their 10-year Seti programme, or Search for Extraterrestrial Intelligence. The project has full NASA mission status.

Astronomers like Jill Tarter, Seti's top scientist, envisage a galactic community of intelligent civilisations that are too far apart to "socialise, colonise or cannibalise one another," as *Life* put it this month, but which communicate via radio messages. The key question is this: once we detect a message, what will we say in reply? We cannot let the rest of the galaxy know what pigs we are; I suppose we will have to lie.

Another idea my advisors are toying with is a GNIKEC - Get Neil Kinnock Into Europe Campaign. We like Neil Kinnock, and support his proposed appointment as a European Commissioner. What lends weight to this idea is the remark of Sir Teddy Taylor MP, a leading Euro-sceptic, that Kinnock "could actually do a great deal more for the EC than some of the Euro-twits regularly seen in Brussels."

A fourth idea was the COJGCPM - Campaign to Organise a Jolly Good Christmas Party for Princess Margaret - on the grounds that the old duck must be sick of being portrayed as a faded appendage of the House of Windsor; must be worried by the growing cross-party clamour for royal pay cuts, and anyway likes nothing so much as a knees-up.

Other potential crusades we are contemplating include the NMJANMC - No More Jokes About Nigel Mansell Campaign; and the CEMBPBPAPWPLNHH - Campaign to Ensure that More Big Premium Live Prizes Are Won by People Who Live in Nottingham.

Once you get going, all manner of opportunities for casting little rays of light across the planet's doomed and pitted surface spring to mind. So here is a competition: readers have until Friday October 2 to send me two proposals, plus short explanations, for LRLAPDS's - Little Rays of Light Across the Planet's Doomed and Pitted Surface.

Send them to Hawks & Handsaws, Weekend FT, Number One Southwark Bridge, London SE1 9HL. The judges will be gifted individuals, and a prize will be awarded.

THE CHANCELLOR performs a double backward somersault, currencies plunge through the safety net, the Big Top shudders, the president's prostate is paraded around the ring and the future of Europe hangs in the balance.

It has been a spectacular week and its climax is tomorrow's French referendum.

But here is one Frenchman who won't be voting.

Jean Palacy is unmoved. "I suppose it's my duty," he said, "because if the result's not good then I am responsible. Mais..." He shrugged. "In any case I think politics is... I don't know how to explain... The outcome is always much the same."

The *doyen* of the flying trapeze has a longer perspective and larger preoccupations - not least the fate of his Ecole Trapeze Volant in Paris which next month will have to quit its present site because the developers are moving in.

I found him, a broad-shouldered man hunched in a chair, giving master-classes in a leafy square in Bristol. His big hands worked the ropes of the safety harness while neophyte fliers swung to and fro, silhouetted in the rig above him before dropping exhausted into his net like ripe fruit into a basket.

His English wife Pauline was on the platform shouting instructions: "Shoulders up! Now bend! Keep your bum in!"

After 27 years aloft as one of the most famous catchers in the world, the Professor of Trapeze, now 62, is grounded. One leg is twisted and he walks with a stick. He resembles an amiable troll with his big chest and strong arms, tanned face and gentle eyes.

I asked him to describe the fascination of his trade.

"It's like flying, like being a bird. That sensation of flying then falling gently into the net is very pleasant."

When you're up there, what do you think about? The danger?

"No. One thinks about the job one has to do. To be a good trapeze artist you must above all think hard. It's not suppleness, or strength so much as mental lucidity."

But there is the element of danger, too.

"There is a bit, but not much on the trapeze. It's much more dangerous to go riding because if the horse shies you can fall on your head. When you know how to do it you can take off the safety harness and you have the net. There's no danger."

But you know people who've been killed doing it?

"Yes. Lots have. But not always because of the act - because of the gear."

Palacy's only serious accident occurred in the Christmas of 1950 when he was 20 and working with his first flying troupe, the Meteors, for Bertram Mills' circus at Olympia in London.

"It was the first day and the net was 25 metres off the ground. When the act was over I went like this (he spread his arms wide) to fall into the net. I went the right through the net and fell 25 metres to the ground. I was six months in hospital in London, the West London in Hammersmith." He smiled.

The broken leg was re-set but he has been plagued with osteoarthritis ever since and will have to be operated on again soon.

After a year's recuperation the widow of another catcher, Stephan Cicans, asked him to reform her husband's troupe. Cicans had plunged 18 metres to his death in Chicago when the rope he was



Colin Seave

Private View / Christian Tyler

## One cool head in a crisis

descending after the act just snapped.

Palacy, whose real name is Quentin ("Palacy" is an abbreviation of Pauline Lacy, the name of his second wife) was born in Paris, the son of a plumber and roofer - trades the son has himself pursued when down on his luck. It was seeing Tarzan in the cinema that decided his life for him.

"I wanted to play Tarzan and I did it. There was a place in Paris where they had trapezes, large and small, and you could go in and spend all day there for 50 centimes. There was no safety harness, no teachers. You did it by yourself. Sometimes trapezists looked in and gave you tips."

"After four or five years you got to learn something. Then I was asked to join a troupe. I never thought of doing anything else."

What did your parents say?

"They didn't say anything. They were quite happy."

Is it a vocation, then, like the priesthood?

"Perhaps. For example at the school I train some doctors. Every year I have ten or 12 of them who plunged 18 metres a week for three months. Then they put on a show

for a week to raise money for humanitarian causes. And now I have some doctors who are no longer doctors. They've given up their trapeze artists. It's unbelievable."

So it's a sort of illness, then?

"Yes, it's like a drug. Once you've done it, you have to go on doing it."

Another of Palacy's former pupils was a dentist specialising in false teeth. At the age of 40 he decided to give it all up and teach trapeze: his school, which bears Palacy's name, is in Brussels.

The two schools organise troupes to appear in festivals. "They nearly always win gold and silver medals. After that, they want to work in big circuses. Everyone wants to be a flyer. But if you are big, if you are strong you have to be a catcher. Not many want to be the catcher because people aren't looking at him: they're looking at the flyer. But it's very important and much more difficult to do, and it takes longer to learn."

I asked Palacy whether the trapeze changed people and his wife answered for him in English: "I don't think anyone could tell you. You have to go up there and feel it yourself."

I mean, does it change people's character?

Jean replied: "Yes. Very much so with children. It gives them much more self-confidence, much more balance. Schoolteachers have told me that they have pupils who are not good at school but after doing trapeze they start doing well at their books. The trapeze is very

*Trapeze guru Jean Palacy describes the pleasures of a life of flight*

special, even in the circus."

The film director Carol Reed captured it in his 1958 film *Trapeze*, a flying love-triangle composed of Burt Lancaster, Gina Lollobrigida and Tony Curtis. The point of suspense, I seem to remember, involved an attempted triple somersault: would the jealous catcher (Lancaster) drop his young rival, or the beautiful girl, to their deaths? Lancaster had himself once worked as a circus acrobat but in the film it was Jean Palacy, then

Jean Quentin, who doubled for him on the bar.

I mentioned the triple and the professor said: "Now they do four. When I was in the US to prepare a troupe for the Big Apple Circus, they took me to see the Ringling show and there the Vazquez did four and a half. I've heard, but not seen, that there's a Russian who does five."

Jean Quentin was married first, at the age of 19, to Josiane his flying partner and they had a son, Patric, who works as a decorator. The marriage broke up and Jean met Pauline, a dancer who was performing aerial routines with a troupe of acrobats, in Spain. They formed a famous double act. Married in 1972, they had left it too late to have children of their own so adopted a little girl of three, Josie, who has grown up to be a model and beauty queen.

I wondered whether so single-minded and strange a career left room for other interests.

"Oh, yes," said Palacy, "there are plenty of things. Music, for example. I listen a lot to South American music. I like to do odd jobs." (Gricoler was the word he used.) Then he pointed to the silver

rig above. "I made all the gear, all the trapezes myself."

"Space travel interests me; people floating in space, free-fall parachuting, those sorts of things. I don't read much. I do a lot of cross-words. When I do read it's Frédéric Dard's 'Saint Antonio'. He's a comic crimewriter - *il est très drôle*."

"I knit as well. I make very nice pullovers. Anything to do with the hands I like."

He shouted to Pauline to fetch one of his sweaters from the van. She came back with a garment of purple, grey and white stitches; it looked very professional. "I make them for my pupils. When I was in hospital I made jumpers for the nurses." He laughed.

You've devoted your whole life to this business. Don't you sometimes think you should have done something else?

"No, I don't think so. If I had to start again I'd do the same. But I'd do it better this time - quicker and better."

I left Jean Palacy in his caravan, wondering whether some of our leaders might not profit from a few lessons with Europe's leading acrobatic professor.

one blot when the rest of us have to put up with half a dozen. None of last week's craziness can be blamed on France. But if the French are sensible tomorrow, all of next week's will be.

□ □ □

European unity is dear to heart of the *Frankfurter Allgemeine*. It carried a report of last Sunday's, as always nationalistic, Last Night of the Proms in London which was seen live by German viewers. "It is fine, in our Europe, how far the bows stretch," wrote Hans Scherer, "from the unbounded happiness of the British to the overenthusiasm of the Sicilians, each jealously guarding its national idiosyncrasies. But on the other hand there is the recognition that superficial observations about national character do not work. Thus one cannot really imagine us Germans waving little flags... and we are energetically working so that we never will."

James Morgan is diplomatic correspondent of the BBC World Service

As they say Europe / James Morgan

## Why Britain was mugged

*'In the end the French may vote "No" because they fear for the future of Camembert or hate the government'*

10bn Ecu loan to shore up the pound, even if it costs another billion or so in pounds to pay it back. That loan is interesting for legal reasons: it will be used to help cover the large budget deficit in the Maastricht Treaty. Britain says it "funds its borrowing requirement by the sale of debt to the private sector" (see the Protocol on certain provisions relating to the UK).

How that statement can be squared with borrowing from German state banks is hard to see. It is fortunate that the Maastricht

Treaty is not in force, otherwise we would never be able to meet its demand for currency stability.

Tomorrow France votes on British public debt sales and even on Danish legislation on second homes (yes, that appears in the treaty too). It is an interesting thought, in view of the likely narrowness of the outcome, that the referendum could be settled by a few hundred Frenchmen who are worried about their holdings of British government stock and who are considering buying a summer cottage in the lee of

IN GENERAL things get worse if a sensible policy is attempted. The week started with a rush of brains to the head when the Bundesbank and others cut interest rates and devalued the lira.

That seems a long time ago now, but the German move was overshadowed by later events. It should have meant the end of the crazy myth foisted on us by the markets. It runs thus: the D-mark is supreme over every body. So an interest rate went to 75 per cent and then 500 per cent in Sweden. The reason is that the Germans alone were paying for unification - had the rest of the Community stumped up a few billion, German interest rates could have come down much earlier. So the Bundesbank banged its friends' heads against the wall in a determined attempt to let us all share in the German experience and bribe it to go away. A small concession meant everything else has fallen apart while the German problem is worse than ever.

But at least the British will now pay a quarter percent less on their

to ensure that the experience of financing unification is as painful as possible, not just for the government which had carried it out in defiance of the Bank's wishes but for everybody. So an interest rate went to 75 per cent and then 500 per cent in Sweden. The reason is that the Germans alone were paying for unification - had the rest of the Community stumped up a few billion, German interest rates could have come down much earlier. So the Bundesbank banged its friends' heads against the wall in a determined attempt to let us all share in the German experience and bribe it to go away. A small concession meant everything else has fallen apart while the German problem is worse than ever.

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